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MICHAEL RODAK, JR., CLERK

Supreme Court of the United States

October Term, 1977

No.

77-1262

LOUIS BECK,

Petitioner,

vs.

PANTHER PUMPS & EQUIPMENT COMPANY, INC.

(Now Morrison Pump Co., Inc.),

Respondent.

PETITION FOR A WRIT OF CERTIORARI

To the United States Court of Appeals

For the Seventh Circuit

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PETITION FOR A WRIT OF CERTIORARI To the United States Court of Appeals For the Seventh Circuit

*To The Honorable, the Chief Justice, and the Associate
Justices of the Supreme Court of the United States:*

Petitioner Louis Beck prays that a writ of certiorari issue to the United States Circuit Court of Appeals for the Seventh Circuit to review the judgment entered in Case No. 77-1142 by said court on November 1, 1977, wherein Louis Beck was appellee.

OPINIONS BELOW

The appellate judgment relates to two distinct legal issues. One is an issue of first impression because Rule 25(c) was used to bind Petitioner to pay a money judgment entered seven years earlier—even though he was not a

party and did not defend the original litigation. The second relates to a charge of civil contempt for an alleged violation of an injunction prohibiting patent infringement.

The District Court, 424 F. Supp. 815 (N.D. Ill. 1976) (App. pp. A46-A58):

(1) Discharged the Order to Show Cause why Beck should not be held in contempt;

(2) Denied Respondent Panther's Motion to substitute Petitioner Beck and Universal Spray Systems as party defendants in a case that had already gone to final money judgment;

(3) Denied Respondent Panther's motion to re-open the contempt hearing.

The Circuit Court of Appeals in a decision reported at 566 F.2d 8 (App. pp. A1-A44) vacated the order of the District Court and remanded the case with instructions:

(1) to issue an order holding [Petitioner] Beck in civil contempt of court, the contempt consisting in a violation of the terms of the November 24, 1970 injunction by making and selling an "infringing product" (the SPRAYMATE Model B) as defined in that injunction;

(2) to issue an order substituting [Petitioner] Beck as a defendant in this, the original case; and

(3) to proceed with an accounting.

The original patent infringement judgment (App. pp. A77-A78) is unreported. The appeal in the underlying patent infringement case is reported at 468 F.2d 225 (7th Cir. 1972) (App. pp. A60-A76). The denial by this court of a Petition for Writ of Certiorari is reported at 411 U.S. 695 (1973) (App. p. A59).

JURISDICTION

The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1). The Judgment below was entered on November 1, 1977. Petition for Rehearing was duly filed and denied without opinion on December 15, 1977 (App. pp. A45-A46).

QUESTIONS PRESENTED

1. Where a moving party is not precluded from asserting its claims in an independent suit, is a District Court's denial of that party's motion to substitute a new party defendant a "final decision" and therefore appealable to a Circuit Court under 28 U.S.C. § 1291?

2. After entry of final money judgment, can Fed. R. Civ. P. Rule 25(c) be used to substitute an individual neither denominated nor served as a party defendant, and to thereby bind him to the payment of the previously entered money judgment without providing that substituted defendant an opportunity to defend the original charge which resulted in the money judgment?

3. Do arguments and representations made in prior court proceedings to sustain the validity of a patent estop a patent holder from expanding the scope of its patent monopoly in a later contempt proceeding?

4. In reviewing the discretionary rulings of a district court in discharging its Order to Show Cause and in refusing to make a post-judgment substitution of a new party defendant, has the Court of Appeals exceeded the scope of appellate review as defined by Fed. R. Civ. P. Rule 52(a), 28 U.S.C., by reversing all the findings made by the District Court and substituting its own unexplained conclusions of fact?

CONSTITUTIONAL PROVISIONS, STATUTES AND RULES INVOLVED IN THIS CASE

Involved in this case are the Fifth Amendment to the United States Constitution; 28 U.S.C. § 1291; Fed. R. Civ. P. Rule 25(c), 28 U.S.C.; Fed. R. Civ. P. Rule 52(a), 28 U.S.C., and 26 Smith-Hurd Ill. Ann. Stats., § 6-110 (1963) (See App. pp. A79-A80).

STATEMENT OF THE CASE

Background

During 1967, respondent Panther Pumps & Equipment Company, Inc. (Panther) filed a Complaint in the United States District Court for the Northern District of Illinois against defendants Hydrocraft, Inc., Paul W. Schlosser, and Edwin Drath, which Complaint alleged patent infringement and sought damages and injunctive relief. Petitioner Louis Beck was neither denominated nor served as a party defendant in the original infringement law suit, even though he, Schlosser, and Drath were equal one-third stockholders in Hydrocraft.

Petitioner Beck was the nominal president of Hydrocraft but took no active part in the day-to-day business activities which were controlled by Messrs. Schlosser and Drath (TR 265-266).¹ In accordance with the jury's verdict, on November 24, 1970, the patents were found valid, an injunction issued and money judgments were entered

1. The abbreviation "TR" followed by page number will be used throughout this petition to reference pages of the transcript of testimony from the contempt trial in April, 1976. The notation "1970 Original TR" followed by a page number is used to reference pages of the transcript from the original infringement trial in June, 1970.

against defendant Hydrocraft, Inc., in the amount of \$150,000.00 and against the individual defendants Schlosser and Drath in the amount of \$5,000.00 each (App. pp. A77-A78). An appeal was taken but no stay of execution of judgment was sought or received.

In November, 1972, the Seventh Circuit Court of Appeals affirmed the judgment against Hydrocraft but refused to hold Schlosser and Drath individually liable for Hydrocraft's patent infringement (468 F.2d 225). A Petition for Certiorari was sought on the limited ground of challenging the District Court's jury instructions. This Court denied the petition at 411 U.S. 965 (1973).

Even though no stay of execution of judgment was sought by Hydrocraft, respondent Panther never attempted to execute the money judgment. This failure to execute is at least partially explained by the admission of Panther's counsel that he thought the judgment could not be executed while motions attacking the judgment remained pending (TR 1120).

The Patent Claims

The patents, U.S. Patent Nos. 3,254,845 and 3,367,270, and claims in issue in the original trial and in this contempt proceeding relate to a hydraulic paint spray pump. The claims are fully set forth in the recent Court of Appeals decision (App. pp. A8-A9) and include:

- (1) A fluid power transfer apparatus including a housing defining chamber, **a driving fluid in said chamber, said fluid having reversible vapor and liquid phases**, and movable means for alternately applying and removing pressure forces to and from said fluid **to cause reversal between said phases.**²

2. Emphasis supplied throughout by bold type.

Evidence Presented by Panther at the Original Infringement Trial in Order to Sustain the Validity of the Patents

During the 1970 trial, the respondent patent holder presented lengthy testimony about the phase reversal feature of the patents in suit (Original 1970 TR 275-295). **Panther's expert at the original trial distinguished the patents in suit from the closest prior art patents on the basis of the presence of the phase reversal feature** (Original 1970 TR 1097-1136). At the 1970 trial, **Panther's expert testified that the vaporization occurred "at what is known as the vapor pressure" for whatever liquid is being vaporized** (Original 1970 TR 1217-1218).

Since during the time of the original trial, respondent Panther placed so much emphasis upon the occurrence of phase reversal, it was necessary for Hydrocraft to determine the conditions that must be necessary in order for this patent phase reversal feature to exist.

The patent does not define when this "reversal between said phases" takes place. Consequently, in the underlying litigation, an interrogatory was propounded to the respondent Panther; the interrogatory appears at page 00189 of Volume 1 of the transcript of original papers filed in the Seventh Circuit Court of Appeals (TR 481, 496, DTX 21).³ The interrogatory is:

34.10 Describe with specificity, the conditions which must be present for said phase reversal to occur;

Answer: [By Panther] **Phase reversal or cavitation occurs when the pressure in the driving fluid chamber is below vapor pressure of driving fluid.**

The fact that respondent Panther claimed that the patented phase reversal or cavitation feature occurs when

3. DTX refers to numbered trial exhibits used by respondent Louis Beck at the 1976 contempt hearing.

the pressure in the driving fluid chamber is below the vapor pressure of the driving fluid was the foundation of the underlying patent infringement litigation in which respondent's patents were found valid, and infringed by the Hydrocraft pump known as the Spraymate (TR 411-412, 498, 1592-1595).

Evidence as to importance of this phase reversal cavitation feature at the original infringement trial can be obtained by reference to the summation argument made to the jury by respondent Panther's counsel on June 18, 1970, who stated that the inventor:

... went to his patent attorneys, and this matter was discussed at length, and it was finally evolved that what was occurring there was that they were having **phase reversal or cavitation, words you must be sick of hearing by now, phase reversal or cavitation occurring in that pump.** (June 18, 1970 Original TR 9)

Panther's Emphasis on Phase Reversal Cavitation During the Original Appeal

After the jury verdict and judgment in favor of the respondent Panther, an appeal was prosecuted to the United States Seventh Circuit Court of Appeals. In the Briefs filed before the Seventh Circuit Court of Appeals, respondent Panther continued to argue that phase reversal was the essential element of the patents and in fact stated:

... the continued reciprocating action of the piston acts to cause some of the pumping liquid remaining in the pump liquid chamber to undergo 'phase reversal' or cavitation in which the pumping liquid successfully and continually changes from liquid to vapor on a return or suction stroke of the piston. Phase reversal or cavitation produces the unobvious results,

advantages or features of what is defined in the patents in suit as 'cavitation cooling' and a reduction in the power requirements of the pump when the pump is in a stand-by condition. . . (DTX 22, pp. 7-8)

. . . The real point here is that if one follows the teachings of the patents in suit and constructs a pump in accordance with the patents in suit, the pump will exhibit phase reversal under standby conditions. (DTX 22, p. 36)

It is clearly set forth in the specifications of the patents in suit that the pump of the invention should be constructed so that phase reversal occurs in the driving fluid chamber during standby. (DTX 22, p. 37)

. . . none of the prior art patents . . . disclose pumps having phase reversal, any more than the 20-odd patents cited by the U.S. Patent Examiner in the patents in suit. . . (DTX 22, p. 37)

These arguments were successful, in that the original Court of Appeals decision found that the patents of the respondent Panther call for a paint spray pump which creates . . . "a partial vacuum, or 'cavitation', in the driving liquid chamber, some of the liquid vaporized and produces 'cavitation cooling.'" (App. p. A6). The Court of Appeals went on to state that "cavitation cooling" is an element of the patented invention even though those words do not appear in the claim (App. p. A69). **Cavitation cooling is also referred to as phase reversal** (TR 1654).

The Alleged Contempt

In 1971, Petitioner Louis Beck became the sole stockholder and president of a new Ohio corporation known as Universal Spray Systems, Inc. Universal manufactured and sold a pump known as the Spraymate B. As a result of that activity, Petitioner Beck was charged with violating the District Court injunction.

At about the time that the District Court entered its permanent injunction, Petitioner Beck approached an inventor-engineer, Zar Kelley, and asked Mr. Kelley to develop a pump which would eliminate the patented phase reversal cavitation feature and not violate the injunction (TR 1223, 1372-1374).

Mr. Kelley analyzed the original pump and determined that the phase reversal cavitation was caused by the drive shaft pulling the pump piston back with a force so high as to create a vacuum in which the ethylene glycol⁴ changed from a liquid phase to a vapor phase. To eliminate this feature, Kelley cut the drive shaft in half and inserted a simple and foolproof spring device that limited the force applied to the piston to only 16 pounds. By so limiting the piston force, he prevented the pressure in the driving fluid chamber from going below the vapor pressure of the ethylene glycol (the driving fluid) and thereby prevented a change from a liquid phase to a vapor phase (TR 1377-1380). At the contempt trial, it was stipulated that the Spraymate B pump was the same as the Spraymate except for the modified spring-loaded shaft designed by Mr. Kelley.

Petitioner Beck wrote to his patent attorney and asked if the Spraymate B would violate the District Court injunc-

4. The driving fluid used in the Spraymate and Spraymate B is ethylene glycol. In the original Spraymate pump it was the ethylene glycol which experienced the phase reversal.

tion. The written response from the patent attorney was that it would not violate the injunction and specifically:

During the infringement suit Panther took the position that the invention in both patents resided in the presence of cavitation and phase reversal during standby operation. The Spraymate pump involved in the infringement suit utilized the same cavitation and phase reversal. A piston diaphragm pump having your spring loaded piston shaft would not produce such cavitation or phase reversal during standby...

... a piston diaphragm pump having your spring loaded piston shaft would not be in contempt of the injunction issued on November 24, 1970 by the United States District Court for the Northern District of Illinois... (DTX 19)

Proceedings at the 1976 Contempt Trial

For clarity, it must be pointed out that at the 1976 contempt trial, Panther used the former defendants Schlosser and Drath on direct examination as its primary fact witnesses. Additionally, Panther used Schlosser as an expert witness during the contempt trial. Schlosser conceived the patented invention and assigned it to Panther while in its employ. He and Drath then left Panther and started Hydrocraft with Beck, in 1966. But by 1976, Schlosser and Drath had realigned themselves with Panther.

On direct examination, respondent Panther's expert witness, Schlosser, was asked if vapor phase reversal is "... the fundamental principle upon which your Schlosser patents were obtained and the principle in issue in the trial of this original case". Schlosser's answer was an unequivocal "yes" (TR 261-262).

Also, at the contempt trial, Schlosser, on behalf of respondent, testified that the phenomenon known as cavitation is also called phase reversal and that cavitation or phase reversal means "... putting a liquid at such a low pressure that it turns into a gas." (TR 239). More specifically, Mr. Schlosser testified as to just how low that pressure had to be in order to have phase reversal (TR 522):

Q. And in order to achieve this phase reversal, is it necessary that the vacuum go all the way down to the vapor pressure of the liquid?

A. Yes.

In addition to the testimony of Kelley, petitioner Beck provided expert testimony from Ellis Born, a professional engineer with more than 35 years experience in the field of hydraulic pumps. Born performed three tests, each independent from the other. All three tests showed that the Spraymate B pump did not exhibit phase reversal cavitation. The first two tests showed that the vapor pressure of the driving fluid was not reached in the Spraymate B and therefore there was no phase reversal cavitation.

The third test performed by Born involved no formulae nor calculations nor any test instruments. The test very simply called for the creation of a Spraymate B pump with a clear plastic housing so that the engineering expert could view the ethylene glycol chamber and make a visual determination if a phase reversal occurred. The testimony was that no phase reversal occurred (TR 1501-1502).⁵ Respondent's expert, Donald Fisher, testified that

5. Footnote No. 7 to Judge Markey's opinion is incorrect. All of Born's tests except this one were run on commercial Spraymate B pumps (TR 1479, DTX 74a, 74b).

he had seen other experts run this type of plastic housing test on other occasions (TR 1009). Respondent's other expert, Schlosser, performed a similar but simplified plastic housing test⁶ in which he claimed to have observed vapor phase reversal (TR 254-261).

At the contempt hearing, respondent Panther provided evidence of additional tests which its experts claimed showed that the Spraymate B was equivalent to the infringing Spraymate. However, respondent's raw evidence, as opposed to the opinions of the experts, tended to show non-equivalence. Respondent's tests showed that the Spraymate B consumed 100% more electrical power on standby (10 amperes vs. 5 amperes) and 67% more electricity during pumping (25 amperes vs. 15 amperes) than the original infringing pump (TR 966-967). Panther's tests also showed that the Spraymate B pumps 43% more fluid on standby (3-3/8 ounces vs. 2.36 ounces) than the original infringing pump (TR 968). Also, the tests showed that the Spraymate during operation pumps 20% more paint (45 ounces vs. 54 ounces) than does the Spraymate B (TR 969).

Evidence on the Motion to Substitute

In 1966, Schlosser, Drath and Beck entered into a Pre-incorporation Shareholders Agreement concerning the formulation of Hydrocraft, Inc. (DTX 1). Schlosser and Drath were in day-to-day control of the business operations of Hydrocraft (TR 266). The Hydrocraft plant and business was located in Chicago and Beck lived in Cleveland, Ohio. Beck was not in control of the Hydrocraft opera-

6. It should be noted that the tests performed by both respondent's experts and petitioner's experts were ex parte. This fact can be largely explained by the fact that only two months elapsed between the time of service on the Order to Show Cause and the Contempt trial.

tions and only visited the plant on approximately six occasions prior to the judgment and injunction of the District Court (TR 1199). Each of the three men owned an equal one-third interest in the corporate stock of Hydrocraft.

During the time that Hydrocraft operated, Beck's primary responsibility to the corporation was to provide financing for the fledgling business operation. The money was used to generally fund the entire Hydrocraft business, to buy equipment and inventory, to pay rent, salaries and other expenses (DTX 1, TR 272). Drath and Schlosser never lent any money to Hydrocraft (TR 273).

During the years 1966 to 1970, as much as a total of \$65,000.00 was loaned by Beck Spray Systems, Inc. and Beck Chemicals, Inc.⁷ to Hydrocraft (TR 265). Some of this debt was repaid and by late 1970, the unpaid debt existent from Hydrocraft to Beck Spray Systems, Inc. and Beck Chemicals, Inc. had been reduced to the range of \$45,000.00 to \$50,000.00 (TR 280). The existence of this debt was not disputed at the time of the contempt trial (TR 277, 709, 208, 1201). Respondent Panther's fact witnesses acknowledged that this debt was a real and bona fide debt (TR 280) and stemmed from monies actually loaned to Hydrocraft, Inc.

After the district court entered a money judgment and an injunction against Hydrocraft in 1970, the business of Hydrocraft came to a "grinding halt" because the company had no product to sell, and did not have a cash flow which would sustain the payment of business expenses, such as plant rent and employees' salaries (TR 275-277).

When it became apparent to Schlosser, Drath and Beck that Hydrocraft was no longer a viable corporation, the Chicago plant was closed, and the three agreed that Hydro-

7. Beck was the primary stockholder in each company.

craft cash and receivables should be used to pay off trade creditors (TR 284, 717). Except for certain cash distributions to Schlosser and Drath, all cash was used for this purpose (TR 718). A one-year old Oldsmobile Toronado was transferred from Hydrocraft to Schlosser (TR 288). A brand new Oldsmobile station wagon was transferred from Hydrocraft to Drath (TR 722). The automobiles were valued at \$10,258.12 (DTX 3). At the same time, Schlosser took from the corporation \$6,500.00 (TR 722), and Drath also took from the corporation \$6,500.00 (TR 722). There is no evidence in the record that they repaid the corporation for these distributions or that the corporation was in any way indebted to them. These cash distributions were not in the ordinary course of business and were made without Beck's knowledge (TR 1233).

In an attempt to repay part of the debt owed to Beck Chemicals, Inc. and Beck Spray Systems, Inc., most of the Hydrocraft parts inventory was shipped to Beck Spray Systems, Inc. (TR 278). These shipments were not made surreptitiously nor in the dark of night. They were made openly and during business hours (TR 731). As early as September, 1971, Schlosser had reported to Panther's president that the Hydrocraft plant had closed and the assets were shipped to Cleveland (TR 358), but Panther made no attempt to set aside the transfer or to attach the assets.

At the time of the contempt hearing, there was widely conflicting evidence as to the value of this inventory. Respondent's witness Drath first testified that the inventory was worth \$250,000.00, but then contradicted the testimony and said it was correctly and accurately valued at \$35,000.00, as shown in the corporate record books (TR 704). At the time the parts inventory arrived in Cleveland, it was physically counted and determined to have a replacement cost value of \$26,394.52 (TR 1221). The evidence

showed also that had the parts inventory been sold in bulk it would have been expected to yield \$4,000 to \$5,000.00 (TR 1223). The argument that this inventory is of reasonably small value is supported by the evidence that as of the time of the contempt trial, April, 1976, at least half of it still existed in the original unopened shipping boxes (TR 1220).

The District Court's disposition of the case did not require a finding as to the value of the inventory transferred. The Court of Appeals, likewise, failed to make a finding as to the value of the inventory so transferred, but Appellate Judge Markey stated (we believe erroneously) "Hydrocraft's Chicago inventory was substantially the only corporate asset . . ." (App. p. A39). The appellate opinion also states that the Hydrocraft parts inventory was ". . . an asset that would have been available to satisfy, in whole or in part, Panther's judgment." (App. p. A41). As will be argued later, petitioner urges that the finding as to the valuation of this inventory is, under the circumstances of the case, an important factual determination that must be made before the imposition of liability, if any, upon Louis Beck.

In January, 1971, Drath and Schlosser resigned as officers and directors of Hydrocraft and sold to petitioner Beck their stock interest in Hydrocraft, Inc. for the sum of \$100.00 payable to each of them, but retained a written option to repurchase the stock for the same price (PTX T, DTX U, T).

Respondent Panther made no claim against Beck Spray Systems, Inc. as a result of that corporation's receipt of Hydrocraft parts inventory, but instead claimed that "Louis Beck and Universal Spray Systems, Inc. are successors in interest to Hydrocraft."

The basis of respondent Panther's claim appears to be founded on three facts not disputed by petitioner: (1) the Hydrocraft parts inventory shipped to Beck Spray Systems, Inc. was transferred to Universal Spray Systems, Inc.; (2) Universal used some of the inventory to make the Spraymate B and (3) Louis Beck is the sole stockholder in Universal.

The unrebutted evidence showed that the separate corporate existence of Universal was always maintained; that the corporation never made a profit; that separate books and financial records were kept; and that Louis Beck never derived any personal financial gain from the corporation. Petitioner Louis Beck never even received a salary from Universal (TR 1352-1356).

REASONS FOR GRANTING WRIT

Denial of Substitution Is Not an Appealable Order

The judgment of the Seventh Circuit Court of Appeals requiring Louis Beck substituted as a defendant in a case that went to final money judgment seven years earlier directly confronts, and Petitioner believes, offends, his due process rights guaranteed by the Fifth Amendment of the United States Constitution.

Before considering the substantial constitutional issues raised by the Rule 25(c) substitution made by the Court of Appeals, this Court is asked to determine if a District Court order denying substitution is a "final decision" appealable under 28 U.S.C. § 1291.

In the Court of Appeals, petitioner Louis Beck contended that the order of the District Court denying substitution was not an appealable order under 28 U.S.C. § 1291. Petitioner asserts that the Appellate Court incorrectly rejected that argument (App. p. A31 n.9) and in so doing violated the principle of law established in *City of New York v. Consolidated Gas Co. of New York*, 253 U.S. 219 (1920) and *Credits Commutation Co. v. U. S.*, 91 F. 570, 571 (8th Cir. 1898), affirmed 177 U.S. 311 (1900).

In *Virginia Land Company v. Miami Shipbuilding Corp., et al.*, 201 F.2d 506 (5th Cir. 1953), an appeal from the district court's order denying appellant's Motion for Substitution under 25(c) was prosecuted. The court granted appellee's Motion to Dismiss, and stated that the order appealed from ". . . was merely one entered under Rule 25(c), denying substitution of parties, an order which rested in the discretion of the district court, and which was not appealable." (201 F.2d 508)

A similar result was reached in *Sumpter Lumber Company v. Sound Timber Company*, 257 F. 408 (9th Cir. 1919). In the *Sumpter* case, at page 140, the Court of Appeals stated that an order of a district court denying an application by a stranger to be substituted as a complainant in a suit is not appealable.

In *City of New York v. Consolidated Gas Co. of New York*, *supra*, this Court considered an appeal from the trial court's denial of an application to intervene in a suit and held:

The application was addressed to the discretion of the District Court, and the order appealed from was not of that final character which furnished the basis for appeal. *Ex parte Cutting*, 94 U. S. 14, 22; *Credits Commutation Co. v. United States*, 177 U. S. 311, 315; *Ex parte Leaf Tobacco Board of Trade*, 222 U.S. 578, 581.

By seeking to substitute Beck under Rule 25(c) Panther tried to short cut the usual procedure of filing a complaint against Beck and asserting its charge of fraudulent conveyance, unjust enrichment, or any other theory which it claims creates a liability from Beck to Respondent Panther.

A "final decision" is "one which leaves nothing open to further dispute and which sets at rest cause of action between parties" or "one which settles rights of parties respecting the subject-matter of the suit and which concludes them until it is reversed or set aside." BLACK'S LAW DICTIONARY, 4th Edition at page 757.

District Judge Austin's order denying substitution is not a "final decision" within the meaning of 28 U.S.C. § 1291 because it leaves open to further dispute all of Panther's claims concerning Beck's receipt of the alleged

fraudulent conveyance, his enrichment thereby, and his potential liability to Panther as a result thereof. Nothing in Judge Austin's order precludes Panther from filing a new lawsuit against Beck and to thereby seek recovery for the alleged damage caused to Panther. In assuming jurisdiction to review Judge Austin's denial of Panther's motion to substitute, the Court of Appeals refused to be bound by the holding in *Credits Commutation Co. v. United States*, *supra*, and erroneously found that the refusal to substitute Beck was a final appealable decision.

The Appellate Court Order Substituting Petitioner Beck Effects a Denial of Due Process of Law

In reaching their separate opinions, both the District Court and the Appellate Court expressly discussed the due process right owed to Petitioner Beck under the Fifth Amendment—but came to vastly different conclusions concerning the definition of that due process right.

The District Court cited the due process clause as the basis of its refusal to substitute Beck as a party defendant and said:

In my opinion, due process and principles of basic fairness require that an individual be given his day in court. Beck and Universal Spray Systems have never had the opportunity to present evidence against the imposition of liability with regard to the original infringement charge and, of course, the issue of liability is now immune from collateral attack. . . Beck and Universal *must* be given the opportunity to defend against the original infringement charge before liability is imposed upon them. They never had this opportunity. . . it seems grossly un-

fair to impose a significant financial liability upon an individual under these circumstances and for these reasons, I will not do so. (App. pp. A56-A57)

The Court of Appeals, as evidenced by Judge Markey's opinion, likewise reviewed the limitations of the due process clause but reached a diametrically opposed result, and stated in pertinent part:

Beck, in the motion to substitute, was not charged with "the original patent infringement." Beck was charged with acts by which he became the successor in interest to Hydrocraft, a judgment debtor. . . . The charge was (and is) that Beck is the successor in interest of the judgment debtor and, therefore, liable on the judgment. Against this charge, Beck was entitled under the Due Process Clause to an opportunity to defend himself to confront the witnesses against him, to cross-examine them, to present evidence in his favor, etc. The record shows that Beck has had his day in court, in a hearing lasting two weeks, on the charge that he is Hydrocraft's successor in interest. There has been no denial of procedural due process. (App. pp. A34-A35)

The threshold question that must be answered before Louis Beck's due process right can be defined is: What was the nature of the proceedings in 1976 and what was Beck's potential burden of liability?

The thrust of Panther's Rule 25(c) motion was to substitute Louis Beck personally to the entire \$150,000.00 money judgment which was issued against Hydrocraft in 1970 which by this time has grown to in excess of \$225,000.00.

Chief Justice Warren speaking for this Court in *Hannah v. Larche*, 363 U.S. 420, 442 (1960), stated that:

"Due process" is an an illusive concept. . . . The nature of the alleged right involved, the nature of the proceeding, and the possible burden on that proceeding, are all considerations which must be taken into account.

. . .

Judge Austin found the "nature of the proceedings" to be a request for complete and total substitution of Beck in place of the judgment debtor Hydrocraft and to thereby bind Beck to a money judgment already immune from collateral attack. Judge Austin found "the alleged right involved" was that "It is argued that Beck should be held liable for the \$150,000.00 judgment entered against Hydrocraft. . ." (App. p. A55).

As a prelude to further discussion of the error which petitioner claims was made by Judge Markey, let it be openly admitted that petitioner in no way challenges the long history of decisions entered by this Court and others which hold that if a fraudulent conveyance is found, then the recipient of that fraudulent conveyance can be held liable to a judgment creditor, either to return the property so conveyed or to pay over the value of the property so conveyed. As an example of the decisions which are not challenged by petitioner, we respectfully cite *Dunphy v. Kleinsmith*, 78 U.S. (11 Wall.) 610 (1870), wherein this court held that a fraudulent assignee of property is liable for a decree and accounting. We further cite *Wolf v. Stix*, 99 U.S. (9 Otto.) 1 (1878) wherein this Court held that if a fraudulent conveyance of property took place, a creditor of the transferor had available to him the remedy of reclaiming the property for the benefit of creditors and that the fraudulent assignee was subject

to the risk of having a court of competent jurisdiction void the transfer of property by which he had benefited. In a more recent case, this Court held that a fraudulent transferee of property is subject to a decree in monetary damages but that the decree is limited to the value of property received by the fraudulent assignee. *Buffum v. Peter Barceloux Co.*, 289 U.S. 227 (1932).

The brief review of this Court's decisions concerning the remedies available in the event of a fraudulent conveyance is very important because Judge Markey based the order substituting Petitioner Beck as a defendant upon a finding of fact—made for the first time in the Court of Appeals—that Beck benefited by a fraudulent conveyance of a parts inventory from Hydrocraft (App. pp. A38-A39).

Assuming, arguendo, that the Court of Appeals had the authority to make a fact finding of fraudulent conveyance and that the finding is correct, it is respectfully argued that Beck would then be entitled to the rights stated by this Court in *Dunphy v. Kleinsmith*, *Wolf v. Stix*, and *Buffum v. Peter Barceloux Co.*, all *supra*. But the Court of Appeals did not apply the holdings of those cases in determining Beck's liability, and did not limit Beck's liability to the value of the assets conveyed. There is no finding as to that value.

The crucial oversight made by Judge Markey in concluding that Beck was not denied due process was failure to consider nature of the proceeding and Beck's possible burden of liability, as referenced in *Hannah*, *supra*.

If the possible burden had been limited to the value of the conveyed Hydrocraft assets then, in that event, petitioner will concede that the two week hearing conducted in April, 1976, was adequate to satisfy the due process guarantee. It is this rationale that supports the ability

of any court to challenge a fraudulent conveyance to the extent of the value of property conveyed as was found in *Buffum v. Peter Barceloux*, *supra*.

But Appellant Judge Markey's opinion is wrong because he used the rationale of this Court's rulings in cases of fraudulent conveyance to support the substitution of petitioner to a seven year old money judgment without reference to the amount of the fraudulent conveyance, and without giving petitioner a hearing on the dispute that gave rise to the original judgment.

The Appeals Court substituted petitioner Beck for the entire \$150,000.00 Hydrocraft liability (\$225,000.00 with interest) but never determined the value of the fraudulent conveyance and therefore did not limit Beck's liability to value of the conveyance from Hydrocraft.

The flaw in the Appellate Court's logic occurs when the Court claims that Beck received due process as a result of the 1976 hearing but proceeds to impose a judgment against Beck that is in no way related to the issue litigated in 1976. It imposed a judgment on Beck for a tort that occurred prior to 1970 and for which he has never had the opportunity to enter a defense.

Petitioner Beck does not challenge the ability of a District or Appellate Court to make a post-judgment substitution of a new party defendant if there is a finding that the new party controlled the litigation prior to judgment and thereby had an opportunity, before judgment, to advance all defenses and to thereby benefit from his due process right. This court reached just that conclusion in *Louisville & N.R. Co. v. Schmidt*, 177 U.S. 230 (1900) based on a finding that the substituted defendant had in fact controlled the litigation prior to judgment.

But in the case of Louis Beck the District Court found:

Beck and Universal Spray Systems have never had the opportunity to present evidence against the imposition of liability with regard to the original infringement charge. . .

. . . In the situation existing between Beck and Hydrocraft, there was no unity of interest between the individual and the corporation. (App. p. A57)

Even the Appellate Court didn't find that Beck controlled the infringement litigation prior to the original judgment against Hydrocraft. The closest the Appellate Court came to discussing the issue of control is a finding that after the entry of judgment against Hydrocraft:

. . . Beck continued to control Hydrocraft's interests by appealing from that judgment, by returning to the district court to seek relief from that judgment under Fed. R. Civ. P. 60(b), and by petitioning for certiorari from this court's affirmance as to Hydrocraft. App. p. A42)

The only fact in the record which can be claimed to support this appellate court finding of post-judgment control is that on January 7, 1971 Beck became the owner of all stock in the defunct Hydrocraft, Inc.

In *Armstrong v. Manzo*, 380 U.S. 545, 552 (1965), this Court addressed the concept of due process in a case which had already proceeded to final judgment and said:

A fundamental requirement of due process is "the opportunity to be heard". *Grannis v. Ordean*, 234 U.S. 385, 394, 34 S. Ct. 779, 783. It is an opportunity which must be granted at a meaningful time and in a meaningful manner.

Louis Beck has never had "the opportunity to be heard" in opposition to the original charge of infringement but yet has been made liable to pay the entire judgment resulting from that infringement. Petitioner urges this court to review the decisions below and to find that the District Court properly exercised its discretion in ruling that "it seems grossly unfair" to substitute Louis Beck, thereby denying Panther's motion to substitute.

Appellate Court Finding of Alter Ego

The Court of Appeals' order to substitute Louis Beck as a defendant in effect is founded upon the piercing of two corporations. First it pierced Hydrocraft to find that Universal Spray Systems, Inc. was a successor in interest and then pierced Universal by saying that Beck was its *alter ego*. The essence of this procedure is that the Court of Appeals made Beck the *alter ego* of Hydrocraft in direct conflict with the District Court findings that:

1. Beck did not control or dominate Hydrocraft,
2. There was no unity of interest between Beck and Hydrocraft,
3. The separate existence of the corporation was always maintained,
4. Beck was an investor who left the day-to-day operations of Hydrocraft in the hands of his two partners. (App. p. A57)

In relation to the District Court findings this Court stands in review in the same position as occupied by Court of Appeals, i.e., to determine whether the District Court findings are clearly erroneous. *McAllister v. United States*, 348 U.S. 19, 20-21 (1954).

The Court of Appeals grossly departed from the standard of appellate review in making its determination of *alter ego* because it engaged in a de novo decision of facts in violation of the standard established in *Zenith Radio Corporation v. Hazeltine Research, Inc.*, 395 U.S. 100, 123 (1969).

Perhaps the most effective argument which can be advanced to urge that the Court of Appeals erred in making its finding of fact that Universal is Beck's *alter ego* is to quote the sentence wherein the Courts of Appeals made this finding:

Universal being Beck's *alter ego*, its manufacture and sale of the SPRAYMATE B pump are attributable to Beck. (App. p. A20)

This is a naked assertion of fact devoid of explanation, reasoning, factual foundation, and most importantly devoid of a finding of clear error. This assertion of fact is in direct conflict with the principle enunciated in *Walling v. General Industries*, 330 U.S. 545, 550 (1947) where this court held that findings of fact by a District Court should not be reversed unless clearly wrong and that, "The Circuit Court of Appeals' rejection of those findings cannot rest on the conflicting testimony of petitioner's witnesses."

Even if the Appellate Court might have reached a different result based upon the facts adduced at trial, this mere fact did not justify its action in setting aside findings of fact entered by the District Court. As this Court stated in *U. S. v. National Association of Real Estate Boards*, 339 U.S. 485, 495-496 (1950):

It is not enough that we might give the facts another construction, resolve the ambiguities differently, and find a more sinister caste to actions which

the District Court apparently deemed innocent. . . We are not given those choices, because our mandate is not to set aside findings of fact "unless clearly erroneous."

Appellate Court's Reversal of a Discretionary Ruling

In making his ruling to deny Panther's Rule 25(c) motion for substitution, District Judge Austin recognized that "The very nature of Rule 25(c) vests a great deal of discretion in the hands of the court." He went on to quote *McComb v. Row River Lumber Co.*, 177 F.2d 129 (9th Cir. 1949) to state that "it is not mandatory that a substitution be made in every case of a transfer in interest." (App. pp. A55-A56)

The Court of Appeals hesitantly "assumed" an acceptance of these principles of law (App. p. A33) but then proceeded to make a ruling that makes substitution of a successor in interest mandatory rather than discretionary.

Although the discretionary nature of Rule 25(c) has been established by the decisions of Circuit Courts, this Court has never reported a decision on the issue. The application of Rule 25(c) in Judge Markey's opinion stressed the finding that Hydrocraft made a fraudulent transfer by which Beck became successor in interest. This de novo "fact" was then used to make substitution mandatory when a successor in interest is found to exist:

The facts clearly show that Beck took the place of Hydrocraft. We hold, therefore, that Beck is Hydrocraft's successor in interest and should be substituted as defendant under Rule 25(c), **the procedural rule which must, of course, follow substantive law.** (App. p. A35)

A majority⁸ of United States Circuit Courts have considered the discretionary nature of Rule 25(c). They have unanimously determined that the application of the rule is discretionary. It is respectfully argued that the opinion of Judge Markey makes the application of Rule 25(c) mandatory and is, therefore, in conflict with all of the other circuits which have considered the issue.

Application of Rule 25(c) Is Limited to Pending Actions Which Have Not Gone to Final Judgment

The District Court agreed with Petitioner's argument that Rule 25(c) could not be applied in the manner sought by Respondent, because the case was not "pending". The Court of Appeals noted that:

* * * the district court first held that Rule 25(c) "applies only to actions which are pending" and that "[t]his case is no longer 'pending' because it went to final judgment [in 1970]." (424 F.Supp. at 821.) We agree that Rule 25 applies only to pending actions, but disagree with the view that this case is not pending * * *

8. The third, fourth, fifth, sixth and ninth circuits have held the application of Rule 25(c) to be discretionary. For example, please see:

Sun Maid Raisin Growers of California v. California Packing Corporation, 273 F.2d 282 (9th Cir. 1959)

Virginia Land Company v. Miami Shipbuilding Corp., 201 F.2d 506 (5th Cir. 1953)

E. I. DuPont De Nemours & Co. v. Lyles & Lang Construction Co., 219 F.2d 328 (4th Cir. 1955), cert. denied 349 U.S. 956 (1954)

Fontana v. United Bonding Ins. Co., 468 F.2d 168 (3rd Cir. 1972)

U. S. for Use and Benefit of Jahn v. Jones Coal Co., 368 F.2d 217 (6th Cir. 1966)

This case is a subsequent proceeding to enforce the judgment (and injunction) rendered in 1970; it is therefore pending *again*, and Rule 25 applies. (App. p. A32)

As the discussion of the rule in *WRIGHT AND MILLER'S Federal Practice and Procedure*, Vol. 7a (1972 Ed.) points out at page 663:

Rule 25(c) speaks to the situation in which there is "any transfer of interest" **during the pendency of the action.**

This emphasis on pendency is crucial, since limiting application of Rule 25(c) to pendent actions avoids all objections on due process grounds that the substituted party will be deprived of his right to a fair hearing. An action is pending "from its inception until the rendition of final judgment." *BLACK'S LAW DICTIONARY*, 1291 (4th Ed. 1951). And a judgment is final, for the purposes of this discussion, when it ends the litigation on the merits and leaves nothing for the court to do but execute the judgment. *Catlin v. United States*, 324 U.S. 229, 233 (1945). It is respectfully argued that the Court of Appeals erroneously created a concept of "pending *again*" in conflict with this Court's ruling in *Catlin, supra*.

Appellate Court Refused to Be Bound by Illinois Law

Since Respondent's claim against Louis Beck was founded on an alleged fraudulent bulk transfer of Hydrocraft assets, Petitioner asserted the six month statute of limitations for such actions established by the Illinois Commercial Code (Title 26 § 6-110). The goods were openly transferred in 1970 and 1971 (TR 79, 80, 281, 282). Panther had knowledge of the transfer in 1972 (TR 1133), but took no action until 1976.

The Court of Appeals stated that Panther did not have knowledge of the transfer until 1975 (App. p. A43). Even accepting, arguendo, this finding of "fact" by the Appellate Court, the record shows that in early 1975, Schlosser had contacted Panther's attorney (TR 221) and that before September 5, 1975 Drath was corresponding with Panther's attorney about Beck's activities (PTX LLLL). Panther's Rule 25(c) motion was filed on April 12, 1976.

Even if all of Petitioner's evidence about Panther's knowledge of the inventory transfer is rejected (as it was by the Appellate Court), Panther is still barred by the six-month statute of limitation, and the Appellate Court erred in not applying that limitation.

District Court Applied the Doctrine of Estoppel to Limit Respondent's Patent Monopoly

Petitioner suggests that this case not only presents for decision by this Court important questions concerning the constitutionally permissible use of Rule 25(c), but that an equally compelling reason for granting Certiorari is to review the Appellate Court refusal to apply estoppel as a limit upon Respondent's claimed patent monopoly.

In order to sustain the validity of its patents during the original trial and appeal, Respondent Panther clearly and unequivocally:

First, argued that the phenomenon of phase reversal is included in its patent monopoly:

. . . The real point here is that if one follows the teachings of the patents in suit and constructs a pump in accordance with the patents in suit, the pump will exhibit phase reversal under standby conditions. (DTX 22, p. 36)

Secondly, stated that the specifications of its patents call for phase reversal:

It is clearly set forth in the specifications of the patents in suit that the pump of the invention should be constructed so that phase reversal occurs in the driving fluid chamber during standby. (DTX 22, p. 37)

Thirdly, distinguished prior art on the absence of phase reversal:

. . . none of the prior art patents . . . disclose pumps having phase reversal. . . (DTX 22, p. 37)

And finally, defined when the phase reversal cavitation phenomenon takes place:

Phase reversal or cavitation occurs when the pressure in the driving fluid chamber is below vapor pressure of driving fluid. (TR 481, 496, DTX 21)

Petitioner Louis Beck respectfully argues that because of these unequivocal representations by respondent Panther, it is now estopped to claim as part of its patent monopoly the Spraymate B pump which was shown not to have phase reversal cavitation.

District Judge Austin presided at both the initial infringement trial in 1970 and at the contempt trial in 1976. His decision in the contempt portion of the case is founded upon estoppel. Judge Austin found that in the original trial and appeal Panther was able to sustain the validity of its patents by claiming they covered a phase reversal cavitation feature. He refused to allow them to change that claim at the contempt trial.

Appellate Court Refused to Apply Estoppel and Thereby Expanded Respondent's Patent Monopoly

In the current contempt trial and appeal, the District Court and the Appellate Court made concurrent findings of fact that "cavitation cooling" is also referred to as "phase reversal cavitation" and that

... In the original trial and appeal, the SPRAYMATE was held an infringing product because it exhibited "cavitation cooling". (App. p. A23)

These concurrent findings of fact are amply supported by the record and petitioner takes no exception to them. But, the balance of the appellate decision concerning the contempt issue petitioner contends is wrong because, in summary, Judge Markey allowed Panther to use the contempt proceeding to broaden its patent monopoly to devices which it distinguished during the original trial and appeal. Namely, the appellate decision has found the Spraymate B to be the equivalent of the Spraymate even though the Spraymate B does not exhibit phase reversal cavitation or cavitation cooling, which Panther, itself, proclaimed to be the "fundamental principle" upon which the patents were obtained and "the principle in issue in the trial of this original case" (TR 262).

Judge Markey's opinion is wrong because it gives respondent Panther a patent monopoly on all paint pumps which function so as to avoid overheating without the use of auxiliary cooling equipment, whether or not they achieve this result by using the patented phase reversal cavitation feature. This broadening of Panther's patent monopoly is irrefutably shown by two quotations from the appellate opinion. Judge Markey states:

... assuming, arguendo, the correctness of the finding that the SPRAYMATE B does not cavitate⁹ and that its operation is therefore not identical¹⁰ to that of the SPRAYMATE, that finding cannot end the inquiry on the issue of contempt. (App. pp. A25-A26)

He then goes on to show his emphasis on the lack of overheating rather than on the patented method for achieving this result by finding:

Finally, and perhaps most tellingly, the SPRAYMATE and the SPRAYMATE B *avoid* overheating of the driving fluid *without* using auxiliary cooling equipment, the main advance of the patented invention over the prior art. The defense must fail in light of the more probative fact: *that the SPRAYMATE B does not overheat*. ... (App. p. A27)

In *Burr v. Duryee*, 68 U.S. (1 Wall.) 531, 572 (1863), this Court held:

That two machines produce the same effect will not justify the assertion that they are substantially the same, or that the devices used are therefore mere equivalents for those of the other.

This Court quoted the above statement from the *Burr* case in *Boyden Power-Brake Co. v. Westinghouse*, 170 U.S. 537, 569 (1898), as being "sound as a general principle of law", and then went on to restate the rule that a function cannot be patented:

... the alleged infringer must have done something more than reach the same result. He must

9. Footnote omitted here.

10. The word "identical" and the concept of identity were not used by the District Court.

have reached it by substantially the same or similar means, or the rule that the function of a machine cannot be patented is of no practical value. To say that the patentee of a pioneer invention for a new mechanism is entitled to every mechanical device which produces the same result is to hold, in other language, that he is entitled to patent his function. . . .

The Court of Appeals did not follow the decisions of *Burr* and *Boyden* and in effect expanded Panther's patents to cover the function of not overheating.

Judge Markey's opinion does not conform to this court's statement in *Graver Tank & Mfg. Co., et al. v. Linde Air Products Co.*, 339 U.S. 605, 608 (1950), that the doctrine of equivalents is founded upon the theory that:

"if two devices do the same work in substantially the same way, and accomplish substantially the same result, they are the same, even though they differ in name, form or shape." *Machine Co. v. Murphy*, 97 U.S. 120, 125.

This error by Judge Markey is particularly exhibited by one quotation from his opinion wherein he shows either a misunderstanding of the evidence presented by Panther in order to sustain the validity of its patents or a deliberate broadening of the patent monopoly claimed by Panther because he says:

. . . inexplicably, the district court stated that the "crucial issue" is the "existence or non-existence of phase reversal cavitation." (App. p. A23)

District Judge Austin stated that phase reversal cavitation was the "crucial issue" because that was the very same argument used by Panther to sustain its patents

during the first trial and appeal and to distinguish its patents from the prior art.

In the contempt trial, Judge Austin expressly looked to the "particular circumstances of the case" when he formulated the requirements for an equivalent to the original Spraymate because he looked to what Panther did in the original trial and found:

. . . The record before me indicates that the Plaintiff, in the original trial and appeal, took the position that phase reversal cavitation occurred in the Spraymate pump. . . Thus, phase reversal at the vapor pressure of the driving fluid was necessary in order to infringe upon the patents for [sic, infringed by] the original Spraymate pump. The Plaintiff, having taken this position at trial, cannot now alter it at the contempt proceeding. (App. pp. A51-A52)

It was Appellate Judge Markey who erred by failing to understand that the primary circumstance of this case is that Panther's patents were found valid because of Panther's repeated argument that they covered a phase reversal cavitation feature as the "fundamental principle." (TR 262).

Judge Markey announced that the "clearly erroneous" test should be applied to review the District Court findings, but he went on to engage in a *de novo* determination of factual issues without deference to the ability of the trial judge to appraise and weigh evidence.

In the landmark case of *Graver Tank, supra*, this court held at 339 U.S. 609-610:

A finding of equivalence is a determination of fact. . . . Like any other issue of fact, final determination requires a balancing of credibility, persuasiveness

and weight of evidence. It is to be decided by the trial court and that court's decision, under general principles of appellate review, should not be disturbed unless clearly erroneous. Particularly is this so in a field where so much depends upon familiarity with specific scientific problems and principles not usually contained in the general storehouse of knowledge and experience.

In an even more recent statement, this court in *Zenith Radio Corporation v. Hazeltine Research, Inc.*, *supra*, at p. 123 said:

In applying the clearly erroneous standard to the findings of a district court sitting without a jury, appellate courts must constantly have in mind that their function is not to decide factual issues *de novo*. The authority of an appellate court, when reviewing the findings of a judge as well as those of a jury, is circumscribed by the deference it must give to decisions of the trier of the fact, who is usually in a superior position to appraise and weigh the evidence. . .

The opinion of District Judge Austin is clear and makes findings on all important issues. It is respectfully submitted that petitioner, in the "Statement of Case" portion of this petition has provided the necessary references to the transcript of testimony and to the exhibits which provide factual support for Judge Austin's opinion.

Additionally, it must be pointed out that the trial of this case presented several important questions as to the credibility of witnesses in that one of Panther's expert witnesses (Fisher) was a professional witness who derived 80-90% of his income from testifying in court (TR 990). The other expert (Schlosser) was biased against Beck because he would benefit by the elimination of Beck and

the Spraymate B from the marketplace (TR 388-389) and had also retained counsel to sue Beck on another, but unrelated claim (TR 290-292).

Judge Austin's decision was expressly based upon the persuasiveness of the witnesses and Panther's failure to meet its burden of proof. Judge Austin found:

After hearing the evidence presented, and carefully considering the entire record before me, I must conclude that the Plaintiff has not successfully carried his burden. The evidence presented does not convince me that phase reversal or cavitation takes place during the operation of the Spraymate B pump while on standby. . . The expert witnesses of the Defendant Beck testified that cavitation did not occur in the operation of the Spraymate B pump and I find that testimony persuasive. The testimony I have heard leads me to conclude that the Spraymate and the Spraymate B do not perform their functions in substantially the same fashion. . . (App. p. A52)

Judge Markey's opinion is wrong because he failed to limit Panther's use of the doctrine of equivalents by the controlling defense of estoppel.

This court has frequently applied estoppel in order to limit application of the doctrine of equivalents. This limitation has historically arisen most frequently in the context of file-wrapper estoppel.

In *Exhibit Supply Co. v. Ace Patents Corp.*, 315 U.S. 126, 136 (1942), this court held:

Whatever may be the appropriate scope and application of the doctrine of equivalents, where a claim is allowed without a restrictive amendment, it has long been settled that recourse may not be had to

that doctrine to recapture claims which the patentee has surrendered by amendment. . .

Similarly, in *Schriber-Schroth Co. v. Cleveland Trust Co.*, 311 U.S. 211, 221 (1940), this Court stated:

The patentee may not, by resort to the doctrine of equivalents, give to an allowed claim a scope which it might have had without the amendments, the cancellation of which amounts to a disclaimer. [citations omitted] The injurious consequences to the public and to inventors and patent applicants if patentees were thus permitted to revive cancelled or rejected claims and restore them to their patents are manifest. . .

In this case Petitioner's defense of estoppel was well established by the representations, arguments and distinguishment of prior art presented by Panther in the original infringement trial and appeal.

Petitioner's research of the decisions of this Court disclose no patent law case which specifically considered an issue of judicial estoppel separate from file-wrapper estoppel. But petitioner respectfully argues that the rationale applied by this court in the *Exhibit Supply* case is the same that should prohibit Panther from now broadening its scope of equivalents to pumps that it previously disclaimed, to wit those that do not possess phase reversal cavitation.

The rule that an estoppel arises against a patentee as a result of its representations made to a court to sustain validity of its patents was first expressly stated in *Union Carbide & Carbon Corp. v. Graver Tank & Mfg. Co.*, 196 F.2d 103 (7th Cir. 1952), cert. denied 344 U.S. 849 (1952) where the court said:

In our opinion, the application of the doctrine of equivalency in this case is to ignore the teachings of the patent, the representation upon which the claims in suit were allowed and, more pointedly perhaps, the representations by which their validity has been sustained in the courts. While the difference between plaintiff's composition and those accused may not be great, it is that difference which distinguished plaintiff's composition from the prior art and which enabled it to sustain the validity of its grant. It is now estopped from claiming otherwise. 196 F.2d at 112.

The same rule has been applied in *Marston v. J. C. Penney Company*, 469 F.2d 694 (4th Cir. 1972), affirming the opinion at 324 F. Supp. 889 (E.D. Vir. 1971). In that case there was no issue of file-wrapper estoppel but there was estoppel caused by the patentee's representations made in prior infringement litigation. The court stated:

Furthermore, arguments and representations made in court in efforts to sustain the validity of Marston's [the Patentee] claims bar him from successfully asserting now that units embodying the changes distinguished in earlier litigation can be considered equivalent. 324 F. Supp. at 894.

Now because of Judge Markey's decision in the Panther contempt action against Louis Beck, the Seventh Circuit has rejected the estoppel doctrine originally adopted in *Graver Tank* (196 F.2d 103) and an express conflict exists between the Seventh and Fourth Circuits. Furthermore, the opinion of Judge Markey is in complete conflict with the rationale that the doctrine of equivalents is subservient to file-wrapper estoppel as set down in

Exhibit Supply, and *Schriber-Schroth*, both *supra*, and many other cases.¹¹

To allow the decision of the Court of Appeals to stand unmodified is to permit Panther to work a fraud on the courts and on the public because Panther obtained an adjudication of validity and infringement based upon one narrow set of claims and six years later was allowed to obtain an adjudication of contempt upon a different set of claims which even encompassed features previously distinguished and disclaimed in judicial proceedings.

The rule of estoppel—be it judicial or file-wrapper—is a rule of ordinary honesty. It is a rule which, in effect, prohibits double dealing. The District Court was right because it applied estoppel to prevent this double dealing by Panther.

The Court of Appeals is wrong because it did not apply estoppel as a bar to the broadened claim of equivalents made by Panther at the contempt trial.

11. *Altoona Publix Theatres, Inc. v. American Tri-Ergon Corp.* (1935), 294 U.S. 477, 492; *Keystone Driller Co. v. Northwest Engineering Corp.* (1935), 294 U.S. 42, 48; *Smith v. Magic City Kennel Club, Incorporated* (1931), 282 U.S. 784, 789-90; *I.T.S. Rubber Company v. Essex Rubber Company* (1926), 272 U.S. 429, 443-4; *Weber Electric Company v. E. H. Freeman Electric Company* (1921), 256 U.S. 668, 677; *Hubbell v. United States* (1900), 179 U.S. 77, 80-4; *Morgan Envelope Company v. Albany Perforated Wrapping Paper Company* (1894), 152 U.S. 425, 429; *Corbin Cabinet Lock Company v. Eagle Lock Company* (1893), 150 U.S. 38, 40; *Knapp v. Morss* (1893), 150 U.S. 221, 224-5; *Royer v. Coupe* (1892), 146 U.S. 524, 532; *Phoenix Caster Company v. Spiegel* (1890), 133 U.S. 360, 368; *Roemer v. Peddie* (1889), 132 U.S. 313, 316-7; *Sutter v. Robinson* (1886), 119 U.S. 530, 541; *Shepard v. Carrigan* (1886), 116 U.S. 593, 597-8; *Sargeant v. Hall Safe and Lock Co.* (1885), 114 U.S. 63, 86.

CONCLUSION

Petitioner respectfully states that the foregoing Petition has provided legal arguments and references to the underlying Appellate Court decision to show that the opinion of the Seventh Circuit Court of Appeals:

I. **Conflicts with decisions of other circuits on the issues of:**

(a) The application of judicial estoppel as a limitation upon a patent holder's expanded claim of equivalents;

(b) The discretionary nature of Rule 25(c);

(c) The status of a denial of a Rule 25(c) motion as an appealable "final decision".

II. **Conflicts with Illinois law** because it allows a recovery on the theory of a fraudulent bulk transfer in a time period beyond the six month statute of limitations created for such actions.

III. **Has decided important questions of federal law not decided by this Court** including:

(a) That Rule 25(c), can, without violation of the due process clause, be used to substitute a non party as a new defendant in a case that has already gone to final money judgment, and to thereby bind that party to payment of the judgment without providing him an opportunity to defend the charge which gave rise to the judgment;

(b) That the denial of a Rule 25(c) motion is an appealable "final decision";

(c) That in a contempt hearing, a patent holder is not barred by judicial estoppel from expanding its claimed

scope of equivalents to include art that it distinguished in the original infringement litigation.

IV. Has decided important federal questions in conflict with applicable decisions of this Court including:

(a) Complete disregard of the rationale of the doctrine of file-wrapper estoppel as established by this Court;

(b) Expansion of Respondent's patent monopoly to include a patent upon the function—in defiance of this Courts' rule that a function cannot be patented;

(c) Application of the theory of fraudulent conveyance to impose a liability without limiting that liability to the value of the property conveyed as required by the decisions of this Court;

(d) Ruling that denial of Respondent's motion to substitute a new-party defendant is an appealable decision even though such denial did not preclude Respondent from seeking relief in another cause of action;

(e) Imposition of a money judgment upon Petitioner without allowing Petitioner to present evidence in defense of the claim upon which that money judgment was founded.

V. Has made a far departure from the accepted and usual course of judicial proceedings by:

(a) Reversing the many and detailed findings of fact made by the trial court without deference to the ability of the trial court to judge credibility and persuasiveness of witnesses;

(b) Undertaking a de novo review of the evidence and then reaching its own "findings of fact";

(c) Interpreting the due process clause of the Fifth Amendment so as to preclude petitioner from having a right to defend the charge which resulted in a judgment against him.

For these reasons, Petitioner prays that the Writ issue.

Respectfully submitted,

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Supreme Court, U. S.

FILED

MAR 13 1978

MICHAEL RODAK, JR., CLERK

Supreme Court of the United States

October Term, 1977

No. **77-1262**

LOUIS BECK,
Petitioner,

vs.

PANTHER PUMPS & EQUIPMENT COMPANY, INC.
(Now Morrison Pump Co., Inc.),
Respondent.

APPENDIX TO PETITION FOR A WRIT OF CERTIORARI To the United States Court of Appeals For the Seventh Circuit

TIMOTHY M. BITTEL
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APPENDIX

**OPINION OF THE COURT OF APPEALS
FOR THE SEVENTH CIRCUIT**

(Decided November 1, 1977)

No. 77-1142

**UNITED STATES COURT OF APPEALS
FOR THE SEVENTH CIRCUIT**

PANTHER PUMPS & EQUIPMENT COMPANY, INC.,
Now Morrison Pump Co., Inc.,
Plaintiff-Appellant,

vs.

**HYDROCRAFT, INC., PAUL W. SCHLOSSER
and EDWARD DRATH,**
Defendants-Appellees.

**APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

Before SWYGERT and CUMMINGS, Circuit Judges,
and MARKEY, Chief Judge.¹

MARKEY, Chief Judge.

Appeal under 28 U.S.C. § 1291 by Panther Pumps & Equipment Co., Inc. (Panther) from an order of the district court, 424 F.Supp. 815 (N.D.Ill.1976), which: (1) discharged an order to show cause why appellee Louis

1. Chief Judge Howard Thomas Markey, United States Court of Customs and Patent Appeals, sitting by designation.

Beck (Beck) should not be held in civil contempt for violating a November 24, 1970 permanent injunction against patent infringement; (2) denied Panther's motion to add or substitute Beck and Universal Spray Systems, Inc. (Universal) as defendants; and (3) denied Panther's motion to reopen the contempt hearing for additional testimony. We vacate the district court's order and remand the case with instructions.

Background

In February, 1967, Panther began what became a protracted patent case² by filing a complaint for infringement, seeking an accounting and an injunction against Hydrocraft, Inc. (Hydrocraft) and two officers of Hydrocraft, Paul W. Schlosser and Edward H. Drath. Beck was not named as a defendant, but he, with Schlosser and Drath, had organized Hydrocraft in 1966. Beck was president and, like Schlosser and Drath, was a one-third owner of Hydrocraft's corporate stock.

In 1970, the case was tried before a jury, which found claim 23 of U. S. Patent 3,254,845 ('845 patent) and claim 19 of U. S. Patent 3,367,270 ('270 patent), valid. The claims respectively define a paint spraying system and pump. Defendant Schlosser made both inventions while employed by Panther, to which he assigned both patents.

Finding Hydrocraft manufacture and sale of its SPRAYMATE pump an infringement, the jury awarded \$150,000 in damages against Hydrocraft and \$5000 in damages against each of defendants Schlosser and Drath. Acting under Fed.R.Civ.P. 58, the clerk entered judgment on September 21, 1970. Defendants moved for withdrawal of judgment.

2. The district court docket entries fill twenty-one pages.

On October 8, 1970, while the motion for withdrawal was pending, Beck, Schlosser, Drath, and their attorneys met in Chicago to discuss the effect of the judgment and the forthcoming injunction. The attorneys advised that the injunction would preclude Hydrocraft's manufacture and sale of the SPRAYMATE domestically.

Schlosser and Drath testified in this contempt proceeding that, during the Chicago meeting, Beck announced a plan to keep Hydrocraft's assets out of the reach of Panther. Schlosser recalled that "Beck was going to take the assets and he was going to start the new corporation with them in Europe and start the company and pay off the bills, and that was it." Drath's post-meeting notes, summarizing the matters discussed, included:

He [Beck] would set up Universal Spray Systems with a foreign base * * * and keep the Hydrocraft, Inc. assets out of reach of seizure.

On November 24, 1970, the district court denied the motion for withdrawal and entered final judgment and a permanent injunction against Hydrocraft, Schlosser, and Drath, and awarded damages as found by the jury. The court enjoined Hydrocraft, "its divisions, subsidiaries, officers, agents, servants, employees, successors, [and] assigns * * * directly or indirectly" (emphasis added) from further infringement. The injunction further stated:

As used herein the term "infringing product" means any product covered by Claim 23 of the United States Letters Patent No. 3,254,845 and any product covered by Claim 19 of the United States Letters Patent No. 3,367,270, any colorable imitation or equivalent thereof, including, but not limited to, the product identified in the captioned case as Defendants' "SPRAY MATE PUMP" of Plaintiff's Exhibit 89.

Carrying out his plan to avoid seizure, Beck shipped eleven tons of SPRAYMATE parts, constituting substantially all the assets of Hydrocraft, to Cleveland.³ The parts were consigned to "Becks Spray Systems, Inc.," a company under Beck's control, in three shipments on November 30, 1970, on December 2, 1970, and on January 5, 1971.

On December 18, 1970, defendants filed their notice of appeal to this court.

Pursuant to a discussion at the Chicago meeting, Beck paid Schlosser and Drath \$100 each for their Hydrocraft stock on January 8, 1971, and became the sole shareholder of Hydrocraft on that date.

Also on January 8, 1971, Beck formed Universal as a new Ohio corporation with himself as the president and sole shareholder. The SPRAYMATE parts inventory of Hydrocraft was transferred from Becks Spray Systems, Inc. to Universal and shown as an asset on Universal's books. In March, 1971, using those SPRAYMATE parts, Universal began making and selling a slightly modified version of the SPRAYMATE pump, identified as the SPRAYMATE Model B (SPRAYMATE B).

On April 19, 1971, Hydrocraft (now wholly-owned by Beck) sought relief from judgment under Fed.R.Civ.P. 60 (b), basing the motion on a newly-discovered German patent reference. The district court denied the motion on June 10, 1971.

On appeal, this court affirmed the judgment of validity, infringement, and the award of \$150,000 in damages against Hydrocraft, but reversed the judgment for dam-

3. Asked in this contempt proceeding whether he thought the Hydrocraft inventory belonged to Panther because of the judgment, Beck testified: "Yes, at the time I thought that they were going to come and get it."

ages against Drath and Schlosser. *Panther Pumps & Equipment Co., Inc. v. Hydrocraft, Inc.*, 468 F.2d 225 (7th Cir. 1972). A petition for writ of certiorari was denied. 411 U.S. 965, 93 S.Ct. 2143, 36 L.Ed.2d 685 (1973).

In 1975, Panther's counsel learned from Schlosser and Drath of the transfer of assets and of the manufacture and sale by Universal of the SPRAYMATE B.⁴ In October, 1975, Hydrocraft's charter was cancelled by the State of Ohio for failure to pay franchise taxes.

The Contempt Proceeding Below

On February 3, 1976, Panther moved for an order to show cause why Beck should not be held in contempt for violating the injunction of November 24, 1970. The district court issued such an order and Beck moved to vacate. Ruling on March 31, 1976, the district court held that it had jurisdiction over Beck and that he was bound by the injunction, stating:

After examination of the affidavits and memoranda, I conclude that Beck is bound under the terms of the injunction as an officer and agent of Defendant Hydrocraft, Inc. The injunction further prohibits officers and agents from "assisting others either directly or indirectly" in infringing the patent[s]. It is therefore immaterial whether Beck personally or a corporation he controls is alleged to have violated the injunction.

Nonparties may be found in contempt of an injunction provided that they have actual notice of

4. Also in 1975, Panther (now Morrison) assigned the '845 and '270 patents to Wagner Spray Tech Corp., an assignment not material on this appeal because Panther retained "whatever rights it may have against Beck arising out of the prior Panther lawsuit * * *." (Exhibit DTX-27.)

the injunction and aid or abet in its violations. [Citing authorities.] Once an injunction has issued, all that is necessary to bind those named is to notify them of the injunction. [Citing authorities.] Plaintiff's affidavits and the record as a whole establish that Beck had notice of the injunction.

In any case, it appears that Beck transacted business in Illinois within the meaning of Chapter 110, Section 17 of the Illinois Revised Statutes. He may therefore be made subject to this Court's jurisdiction pursuant to Rule 4(e) of the Federal Rules.

Prior to the contempt hearing, Panther moved under Fed.R.Civ.P. 25(c)⁵ to substitute or add Beck and Universal as defendants in the original suit. At the hearing, the district court received evidence on the transfer of assets and ordered that the issue be briefed.

An understanding of the contempt issue is facilitated by a brief review of the patented subject matter. The patents are directed to an improved paint spraying system, particularly the pump, and to elimination of the detrimental heating of the pump during "standby" operation, i.e., when the painter turns off the spray nozzle without stopping the pump motor.

The pump structure itself includes a housing divided into two chambers by a flexible diaphragm. One chamber is connected to a paint supply and to a spray gun. As the diaphragm cycles back and forth in the chamber, paint

5. Rule 25. Substitution of Parties.

(c) Transfer of Interest. In case of any transfer of interest, the action may be continued by or against the original party, unless the court upon motion directs the person to whom the interest is transferred to be substituted in the action or joined with the original party. Service of the motion shall be made as provided in subdivision (a) of this rule.

is drawn into that chamber and expelled therefrom to the spray gun. To move the diaphragm, the other chamber contains a driving fluid (ethylene glycol) acted upon by a reciprocating, motor-driven piston. On the forestroke of the piston, pressure applied to the ethylene glycol by the piston pushes the diaphragm; on the backstroke, suction withdraws the diaphragm. A piston shaft extends from the housing for connection with a motor.

During standby operation, paint drawn into the paint chamber can no longer be expelled because the spray gun nozzle is closed. The paint chamber becomes filled with paint and prevents diaphragm movement. Because ethylene glycol is practically incompressible, something must give to permit the piston to continue moving. Prior art devices continuously recirculated either paint through the paint chamber or driving fluid through the driving fluid chamber. The motor worked as hard as in the painting operation, and the fluid became hot from recirculation, requiring auxiliary cooling equipment.

Schlosser discovered that reduced motor work and heat buildup could be achieved by a return of less driving fluid on the piston backstroke than that expelled on the forestroke. The need for auxiliary cooling equipment was eliminated. The patents theorize that on the piston backstroke, because the chamber expands to a volume greater than that of the driving fluid, "cavities" will be formed within the driving fluid, requiring less work from the motor during standby operation. It was also theorized that "some" of the driving fluid will change from liquid to vapor and that the cavities will therefore have vapor in them. On the next piston forestroke, the vapor will recondense as the chamber reduces in volume. The reduction in heating, as compared to prior art devices, is referred to in the patent specifications by the coined

phrase, "cavitation cooling" and is described as occurring when the driving fluid "evaporates" to form the vapor and then recondenses to the liquid state.

Claim 23 incorporates claims 22 and 1 and defines the entire system:

1. A fluid power transfer apparatus including a housing defining chamber, a driving fluid in said chamber, said fluid having reversible vapor and liquid phases, and movable means for alternately applying and removing pressure forces to and from said fluid to cause reversal between said phases.

22. A fluid power transfer apparatus substantially as set forth in claim 1 including a variable load material in combination with said housing, and wherein said movable means is a prime mover for moving said variable load material, and said drive fluid is a liquid disposed between said prime mover and said variable load comprising relatively incompressible liquid means interposed between said prime mover and said variable load material and means responsive to variations of the variable load material being driven for controlling a conditions [sic] establishing driving and non-driving relationships of said prime mover and said variable load material, said non-driving relationship being characterized by cyclic vaporizing and condensing of said liquid whereby to limit horsepower consumption of said prime mover.

23. A fluid power transfer apparatus substantially as set forth in claim 22, said prime mover being a pump, and said variable load material being a paint spray gun.

Claim 19 incorporates claim 12 and defines the pump:

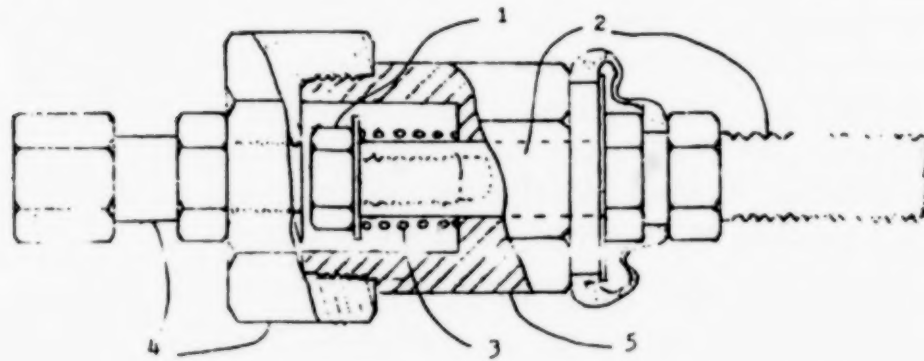
12. In a liquid driven diaphragm fluid pump of the character described wherein the diaphragm has limiting positions of movement in the pump housing, a reciprocating piston in said housing for driving a mass of liquid for driving said diaphragm, means for controlling the quantity of the liquid in said housing comprising, a source of driving liquid, liquid supply valve means in liquid communication between said source and the mass of liquid, means for biasing said supply valve means to closed position and being opened by relatively low liquid pressure, liquid vent valve means in liquid communication with the mass of liquid and liquid low pressure outlet for said vent valve means, said vent valve means being biased to closed position and being opened by pressure exerted by the driving liquid when said exerted pressure exceeds the pressure of the pumped fluid by a predetermined degree of pressure, and valve means on the pumped fluid side of the diaphragm for controlling the delivery of pumped fluid and including a closable pumped fluid port, said control valve means, when closed, causing operation of said vent valve means at one limiting position of the diaphragm.

19. The liquid driven diaphragm fluid pump of claim 12 wherein the reciprocating piston comprises a power means for driving a variable capacity load of pumped liquid, a driving liquid disposed between said reciprocating piston and said variable capacity load of pumped liquid, and automatically activated means responsive to the demand of said load for controlling the consumption of power of the prime mover.

Panther's Evidence on the Contempt Issue

Panther presented two expert witnesses: Schlosser, a defendant in the original suit and the inventor, while employed by Panther, of the two patents in suit, and Donald A. Fischer, former Dean of the School of Engineering at Washington University, who had been Panther's expert witness at the original trial in 1970.

Fischer compared the structure of the SPRAYMATE and the SPRAYMATE B and testified that their designs are identical, with but one exception. The SPRAYMATE has a solid, one-piece drive shaft connecting the piston with the motor, but the SPRAYMATE B has a multipart drive shaft connecting the piston with the motor, the shaft parts fitting together with a spring inside them. The SPRAYMATE B shaft is illustrated by one of Beck's exhibits (DTX-62), to which we have added reference numerals:



At the left, stem 4 is connected to the piston (not shown). The right end of shaft 2 is connected to the motor (not shown) which imparts a reciprocating motion to the entire assembly shown. Shaft 2 slides inside housing 5, an extension of stem 4. The end of shaft 2 has a head 1 which holds coil spring 3 against the inner shoulder of housing 5.

In operation, spring 3 gives the SPRAYMATE B shaft about 1/16 inch of "play," or lost motion, in a stroke length of about 1/4 inch. It was stipulated that the spring-carrying external shaft is the *only* structural difference between the SPRAYMATE and SPRAYMATE B.

Schlosser and Fischer testified that they performed three tests on both the original infringing SPRAYMATE and on the SPRAYMATE B. The first measured the electrical current required to operate each, while pumping and while on standby. The SPRAYMATE drew 15 amperes while pumping and 5 amperes on standby. The SPRAYMATE B drew 25 amperes while pumping and 10 amperes on standby.

The second test measured the quantity of ethylene glycol expelled from the driving fluid chamber during standby operation. The SPRAYMATE expelled 2.36 ounces in 30 seconds from a chamber capacity of 57.6 ounces. The SPRAYMATE B expelled 3³/₈ ounces in 30 seconds from a chamber capacity of 42.5 ounces. Fischer testified that this test "indicated to me that this [SPRAYMATE B] chamber wasn't filled with ethylene glycol all the time, there was vapor in there, and that there was cavitation."

The third test measured the amount of paint being pumped. The SPRAYMATE pumped 54 ounces in 30 seconds and the SPRAYMATE B pumped 45 ounces in 30 seconds. Neither the SPRAYMATE nor the SPRAYMATE B overheated during standby operation. As a result of their tests, Schlosser and Fischer testified that the SPRAYMATE and SPRAYMATE B operated in substantially the same way with substantially the same results.

Beck's Evidence on the Contempt Issue

Beck also presented two witnesses: Zar W. Kelley and Ellis H. Born. Kelley was the engineer who designed the spring-carrying external drive shaft assembly (shown above in DTX-62) for the SPRAYMATE B at Beck's request, after the injunction issued on November 24, 1970. Kelley testified that Beck employed him to design a pump that would "eliminate phase reversal cavitation," and that he designed the SPRAYMATE B shaft assembly for this purpose, completing the drawing shown in DTX-62 on February 2, 1971.

Kelley said his approach was to prevent the pressure in the driving fluid chamber from dropping "lower than the vapor pressure of ethylene glycol and, of course, that is where the phase reversal cavitation starts." Kelley found the vapor pressure of ethylene glycol (at "about" 190°F.) in the *Handbook of Chemistry and Physics* and, after a conversion calculation, said that this was "29.5 inches of mercury vacuum gauge reading." Through another series of calculations and conversions, Kelley determined that the force on the piston would have to be 18 pounds to produce such a low pressure (high vacuum). He stated that he used a 16-pound spring to keep the force on the piston below 18 pounds and thereby to keep the vacuum from dropping to 29.5 inches of mercury (the vapor pressure of ethylene glycol).

Born, a research engineer, agreed with Kelley's calculations and with Kelley's testimony that a force less than 18 pounds pulling back on the piston would fail to create phase reversal cavitation in the ethylene glycol.

Born gave this definition of "vapor pressure" from p. 303 of *Mechanical Engineers' Handbook* (L. Marks ed. 1941) (exhibit DTX-79),

Vapor Pressures. At a specified temperature, a pure liquid can exist in equilibrium contact with its vapor at but one pressure, its vapor pressure. A plot of these pressures against the corresponding temperatures is known as a vapor-pressure curve.

and this definition of "cavitation" from p. 12-2 of *Handbook of Fluid Dynamics* (V. Streeter ed. 1961) (exhibit DTX-78): "In most engineering contexts, *cavitation* is defined as the process of formation of the vapor phase of a liquid when it is subjected to reduced pressures at constant ambient temperature." (Emphasis in original.) Born testified regarding three *ex parte* tests conducted by him, illustrating his testimony by reference to photographs (DTX-74 a, b) of a court exhibit (DTX-77), comprising a replica or model of the SPRAYMATE B, which had a specially-constructed driving fluid chamber made from a clear plastic block, permitting him to see the ethylene glycol during standby operation. He stated that a commercial SPRAYMATE B "should have identical characteristics to those of the plastic model."

Born's first test measured, with a vacuum gauge, the lowest pressure (highest vacuum) attained in the driving fluid chamber of DTX-77 during standby operation. Born found that 19 inches of mercury vacuum was the highest vacuum attained in DTX-77. Thus, Born said that the pressure did not go low enough to equal the vapor pressure of ethylene glycol and that, therefore, DTX-77 "does not have phase reversal."

Born's second test on DTX-77 employed a pressure probe, with the reading displayed on an oscilloscope. Born testified that the visual display on the oscilloscope indicated that the highest vacuum in the driving fluid chamber on standby operation was 20 inches of mercury vacuum.

Born's third test on DTX-77 involved visual observation of the driving fluid through the plastic block during standby operation. Born testified that he "could not observe a true phase reversal phenomenon."

Neither Kelley nor Born conducted any tests whatever on the original, and infringing, SPRAYMATE pump.

After the contempt hearing, Panther moved to reopen under F.R.Civ.P. 59(a), on the ground that whether the pressure within the driving fluid chamber dropped to the vapor pressure of ethylene glycol during standby was not an issue in the original trial and that Panther had therefore been surprised by this evidence at the contempt hearing. Panther attached an affidavit by Frank A. Bower, who had now measured the vacuum achieved in the infringing SPRAYMATE during standby and had found it to be 19 inches of mercury gauge—identical to that achieved in the SPRAYMATE B as found by Born.

The District Court

On the contempt issue, the district court held that Beck had not violated the 1970 injunction. It stated (424 F.Supp. at 818-20):

The basic question which the court must determine is whether or not the modified device, in this case the Spraymate B pump, is the equivalent of the original device. See e. g., *Schlegel Manufacturing Company v. USM Corp.*, 525 F.2d 775 (6th Cir. 1975).

* * * The existence or non-existence of phase reversal cavitation is the crucial issue * * *. * * * Plaintiff, in the original trial and appeal, took the position that phase reversal cavitation occurred in the Spraymate pump. * * * [T]he Court of Appeals implied as much in its opinion when it stated that cavi-

tation cooling was an element of the original patented invention. *Panther Pumps & Equipment Co. Inc. v. Hydrocraft, Inc.*, [468 F.2d] at 230. Thus, phase reversal at the vapor pressure of the driving fluid was necessary in order to infringe upon the patents for the original Spraymate pump [sic, in order for the original SPRAYMATE pump to infringe the patents]. The Plaintiff, having taken this position at trial, cannot now alter it at the contempt proceeding. *Union Carbide & Carbon v. Graver Tank & Manufacturing Co.*, 196 F.2d 103 (7th Cir. 1952).

* * * The evidence presented does not convince me that phase reversal or cavitation takes place during the operation of the Spraymate B pump while on standby. The claims of the patents on [sic, infringed by] the original Spraymate pump require phase reversal cavitation and this process cannot take place unless the vacuum in the chamber is at the vapor pressure of the ethylene glycol fluid. The expert witnesses of the Defendant Beck testified that cavitation did not occur in the operation of the Spraymate B pump and I find that testimony persuasive. The testimony I have heard leads me to conclude that the Spraymate and the Spraymate B do not perform their functions in substantially the same fashion. The Spraymate B pump possesses a modified piston shaft with a spring device which limits the amount of force applied to pull the piston backward while in operation. By limiting the amount of force applied to the piston, through the utilization of the spring-loaded piston shaft, the inventor of the Spraymate B pump has prevented the occurrence of phase reversal or cavitation. Consequently, there can be no holding of contempt for the manufacture and sale of the Spraymate B.

Regarding substitution of Beck and Universal as defendants under Fed.R.Civ.P. 25(c), the district court held that rule inapplicable, stating (424 F.Supp. at 821-22):

Generally, Rule 25(c) applies only to actions which are pending. This case is no longer "pending", since it went to final judgment six years ago. However, the Plaintiff urges that in certain situations, substitution of parties after entry of judgment is proper. See generally, 3B J. Moore, *Federal Practice* ¶ 25.03[1], at 25-101 (2d ed. 1975). The Plaintiff further contends that Beck and Universal Spray Systems became successors in interest of Hydrocraft at the time the parts inventory was transferred from Chicago to Cleveland. It is argued that Beck should be held liable for the \$150,000 judgment entered against Hydrocraft because he engineered a fraudulent transfer of the assets of the original defendant so as to make Hydrocraft judgment-proof.

The very nature of Rule 25(c) vests a great deal of discretion in the hands of the court. It is not mandatory that a substitution be made in every case of a transfer of interest. *McComb v. Row River Lumber Co.*, 177 F.2d 129 (9th Cir. 1949). I personally have grave doubts about transferring liability to an individual and a corporation who were not parties to the original lawsuit. In my opinion, due process and principles of basic fairness require that an individual be given his day in court. Beck and Universal Spray Systems have never had the opportunity to present evidence against the imposition of liability with regard to the original infringement charge and, of course, the issue of liability is now immune from collateral attack. The Plaintiffs argue that Beck cannot complain of a denial of due process because he

had ample opportunity to present evidence relating to the transfer of assets in 1970, during the contempt hearing held in April. By arguing in this fashion, the Plaintiff fails to understand the very nature of the due process right possessed by Beck and Universal Spray Systems. Beck and Universal *must* be given the opportunity to defend against the original infringement charge before liability is imposed upon them. They never had this opportunity, and the chance to present evidence relating to issues other than the original infringement in a later contempt hearing is not an adequate substitute. I do not believe that Rule 25(c) can be utilized in the manner sought by the Plaintiff. The Federal Rules of Civil Procedure were not designed to avoid the constitutional requirement of due process of law. [Footnote omitted.] Once a case has proceeded to judgment, any opportunity a person such as Beck would have had to defend the infringement charge is lost permanently. It seems grossly unfair to impose a significant financial liability upon an individual under these circumstances and for these reasons, I will not do so.

Additionally, the Plaintiff claims that Beck should be held personally liable for the outstanding judgment because he is the alter ego of Defendant Hydrocraft. In essence, the Plaintiff is asking this court to "pierce the corporate veil" and impose liability upon Beck because he and Hydrocraft were, in reality, one single entity. In order to apply the alter ego doctrine, a finding of control and domination of the corporation on the part of the individual is necessary. See e. g. *U. S. v. Sancelmar Industries, Inc.*, 347 F.Supp. 404 (E.D.N.Y.1972). I cannot make such a finding based upon the record. The evidence presented dur-

ing the contempt hearing does not show complete domination of the corporation entity by Beck. In the situation existing between Beck and Hydrocraft, there was no unity of interest between the individual and the corporation. The separate existence of the corporation was always maintained and Beck never exercised anything even resembling domination over Hydrocraft. He was simply an investor who left the day-to-day operations of the corporation in the hands of his two partners. Plainly, the facts present in this case do not allow me to pierce the corporate veil and impose personal liability upon Beck. See generally, *National Bond Finance Co. v. General Motors Corp.*, 238 F.Supp. 248 (W.D.Mo.1964), *aff'd.*, 341 F.2d 1022 (8th Cir. 1965).

Finally, the district court denied Panther's motion to reopen (424 F.Supp. at 822):

This additional testimony would not dispel the fair ground of doubt which I have as to the contemptuous nature of the Defendant's conduct in manufacturing the Spraymate B. Therefore, it is pointless to hear this additional testimony.

Issues

The dispositive issues are whether the district court erred in (1) refusing to hold Beck in contempt and (2) refusing to add or substitute Beck and Universal as defendants. We do not reach the issue of whether it was error to deny the motion to reopen.

OPINION

I. Contempt

[1] The district court held that it had jurisdiction over Beck, that he was bound by the 1970 injunction as an "officer" of Hydrocraft, and that he had notice of the injunction.⁶ Beck has not appealed from these holdings, hence, they are *res judicata*.

Respecting the contempt issue, therefore, the questions are: (A) whether Universal's manufacture and sale of the SPRAYMATE B pump are attributable, "directly or indirectly," to Beck; and (B) whether the SPRAYMATE B pump is an "infringing product" as defined in the injunction.

A. "Piercing the corporate veil"

[2] Universal's manufacture and sale of the SPRAYMATE B are manifestly the result, "directly or indirectly," of Beck's activities. The record shows that Beck employed Kelley in an effort to evade the injunction, i. e., to design a pump which would "eliminate phase reversal cavitation" and that Kelley then promptly placed a spring in the piston shaft (DTX-62) of the infringing pump. Beck formed Universal, his solely-owned corporation, for the purpose of making and selling the SPRAYMATE B.

And, as the district court said, "[d]uring late 1970 and early 1971, the parts inventory of Hydrocraft was

6. This proceeding was for the enforcement of the injunction and not to review or alter it. It was heard and determined as a proceeding for civil, not criminal, contempt. The proceeding is to be regarded as a part of the original cause, not as an independent one. See *Leman v. Krentler-Arnold Hinge Last Co.*, 284 U.S. 448, 452, 52 S.Ct. 238, 76 L.Ed. 389 (1932). Fed.R.Civ.P. 65(d) states: "Every * * * injunction * * * is binding only upon the parties to the action, their officers, * * * and upon those persons in active concert or participation with them who receive actual notice of the order * * *." (Emphasis added.)

physically transferred to Cleveland, at the direction of Louis Beck, where [it was] ultimately utilized by Universal Spray Systems, Inc." (424 F.Supp. at 820, footnote omitted). To borrow the Supreme Court's statement in *Pepper v. Litton*, 308 U.S. 295, 311, 60 S.Ct. 238, 247, 84 L.Ed. 281 (1939), "[h]e cannot violate rules of fair play by doing indirectly through the corporation what he could not do directly." Beck cannot use the corporate form to evade the prohibitions of the injunction which bound him. Universal being Beck's *alter ego*, its manufacture and sale of the SPRAYMATE B pump are attributable to Beck.

B. *The SPRAYMATE B is an
"infringing product"*

The 1970 injunction defines "infringing product" as, *inter alia*, "any colorable imitation or equivalent thereof, including, but not limited to, the product identified * * * as Defendants' 'SPRAY MATE PUMP.'" (Emphasis added.) Thus, the specific issue is whether the SPRAYMATE B pump is an equivalent of the infringing SPRAYMATE pump. If so, it is an "infringing product." Beck stipulated that the sole structural difference between the two pumps is that the SPRAYMATE B has the spring-carrying piston shaft, whereas the SPRAYMATE has a solid, one-piece piston shaft. Thus, the question is whether this single structural difference causes the SPRAYMATE B to have overall operating characteristics so different from the SPRAYMATE that the two pumps are not equivalents. We hold that it does not and that the pumps have equivalent operating characteristics.

Our approach follows the guidance of the Supreme Court in the leading case, *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605, 607-08, 70 S.Ct. 854, 856, 94 L.Ed. 1097 (1950):

[C]ourts have * * * recognized that to permit imitation of a patented invention which does not copy every literal detail would be to convert the protection of the patent grant into a hollow and useless thing. Such a limitation would leave room for—indeed encourage—the unscrupulous copyist to make unimportant and insubstantial changes and substitutions in the patent which, though adding nothing, would be enough to take the copied matter outside the claim, and hence outside the reach of law. One who seeks to pirate an invention, like one who seeks to pirate a copyrighted book or play, may be expected to introduce minor variations to conceal and shelter the piracy. Outright and forthright duplication is a dull and very rare type of infringement. To prohibit no other would place the inventor at the mercy of verbalism and would be subordinating substance to form. It would deprive him of the benefit of his invention and would foster concealment rather than disclosure of inventions, which is one of the primary purposes of the patent system.

The doctrine of equivalents evolved in response to this experience. The essence of the doctrine is that one may not practice a fraud on a patent. Originating almost a century ago in the case of *Winans v. Denmead*, 15 How. [56 U.S.] 330, 14 L.Ed. 717, it has been consistently applied by this Court and the lower federal courts, and continues today ready and available for utilization when the proper circumstances for its application arise. "To temper unsparing logic and prevent an infringer from stealing the benefit of an invention" a patentee may invoke this doctrine to proceed against the producer of a device "if it performs substantially the same function in substantially the same way to obtain the same result." *Sani-*

tary Refrigerator Co. v. Winters, 280 U.S. 30, 42, 50 S.Ct. 9, 74 L.Ed. 147. The theory on which it is founded is that "if two devices do the same work in substantially the same way, and accomplish substantially the same result, they are the same, even though they differ in name, form or shape." *Machine Co. v. Murphy*, 97 U.S. 120, 125, 24 L.Ed. 935.

¹L. Hand in *Royal Typewriter Co. v. Remington Rand*, 2 Cir., 168 F.2d 691, 692.

Graver Tank supplies these guidelines on determining equivalency:

What constitutes equivalency must be determined against the context of the patent, the prior art, and the particular circumstances of the case. Equivalence, in the patent law, is not the prisoner of a formula and is not an absolute to be considered in a vacuum. It does not require complete identity for very purpose and in every respect. In determining equivalents, things equal to the same thing may not be equal to each other and, by the same token, things for most purposes different may sometimes be equivalents. Consideration must be given to the purpose for which an ingredient is used in a patent, the qualities it has when combined with the other ingredients, and the function which it is intended to perform. An important factor is whether persons reasonably skilled in the art would have known of the interchangeability of an ingredient not contained in the patent with one that was.

A finding of equivalence is a determination of fact. Proof can be made in any form: through testimony of experts or others versed in the technology; by documents, including texts and treatises; and, of course,

by the disclosures of the prior art. Like any other issue of fact, final determination requires a balancing of credibility, persuasiveness and weight of evidence. It is to be decided by the trial court and that court's decision under general principles of appellate review, should not be disturbed unless clearly erroneous. Particularly is this so in a field where so much depends upon familiarity with specific scientific problems and principles not usually contained in the general storehouse of knowledge and experience. [339 U.S. at 609-10, 70 S.Ct. at 856.]

The district court began its analysis by correctly noting that the injunction uses the term "equivalent" and that, therefore, the "basic question" (424 F.Supp. at 818) is one of equivalency between the SPRAYMATE B and the SPRAYMATE. But then, inexplicably, the district court stated that the "crucial issue" is the "existence or non-existence of phase reversal cavitation." (424 F.Supp. at 819.)

[3] In the original trial and appeal, the SPRAYMATE was held an infringing product because it exhibited "cavitation cooling." In formulating the issue, the district court required that the SPRAYMATE B also exhibit cavitation cooling (though it described that theoretical phenomenon as "phase reversal cavitation"). Thus, the district court required identity of operation, not *equivalency* of operation. This was clear error.

[4] The district court's finding that the SPRAYMATE B does not cavitate was premised on the theory that cavitation "cannot take place unless the vacuum [sic, pressure] in the chamber is at the vapor pressure of the ethylene glycol fluid," (424 F.Supp. at 819), a theory on which the court's attention was focused by Beck's witnesses Kel-

ley and Born. While that theory would be applicable to a static fluid system, where cavitation of the entire system would be the same as boiling, the district court did not apply the theory to conditions required for initiation of cavitation at a specific place or point in a fluid subjected to a dynamic environment. The ethylene glycol in the driving fluid chamber of the SPRAYMATE B is not a static fluid. On the contrary, it is subjected to a dynamic environment, being violently agitated by the piston at 500 strokes per minute.

Born quoted to the court below only the first sentence on p. 12-2 of *Handbook of Fluid Dynamics* (V. Streeter ed. 1961) (exhibit DTX-78). The entirety of the first two paragraphs in that exhibit read:

Definitions and Scope. In most engineering contexts, *cavitation* is defined as the process of formation of the vapor phase of a liquid when it is subjected to reduced pressures at constant ambient temperature. In general, a liquid is said to *cavitate* when vapor bubbles are observed to form and grow as a consequence of pressure reduction. When the phase transition is a result of pressure change by hydrodynamic means, a two-phase flow composed of a liquid and its vapor is called a *cavitating flow*. While these definitions imply a distinction between phase transitions associated with reduction of pressure, on the one hand, and addition of heat (i. e., *boiling*), on the other, heat-transfer effects may play an important role in many cases of cavitating liquids. Such effects are especially of importance in liquids near their boiling points. From a purely physical-chemical point of view, of course, no distinction need be made between boiling and cavitation, at least in so far as the question of inception is concerned, and many of the basic physical ideas re-

garding inception, vapor mass transfer, and condensation apply equally.

In a flowing liquid (or for a body moving through a stationary liquid), the parameter which describes the pressure conditions for similarity in the liquid-gas system is called the *cavitation number*, or *cavitation parameter*. It is a special case of the usual pressure coefficient and relates the pressure on the cavitating system (relative to the gas pressure) to the dynamic pressure. The magnitude of the cavitation number is an indication of the degree of cavitation or of the tendency to cavitate. It is defined as

$$p = \frac{P - P_c}{1/2 \rho U^2}$$

in which P = (absolute) static pressure at point of interest

P_c = gas pressure (vapor pressure in a two-phase, one component flow or sum of partial pressure of vapor and other gas in a multicomponent system)

ρ = mass density of liquid

U = reference velocity

[Italics in original.]

Thus, according to the treatise of record, cavitation in a dynamic system is a complicated phenomenon and is dependent on far more than the vapor pressure of the liquid alone.

Quite apart, however, from any question whether the district court may have been misled with respect to the technological evidence before it, and assuming, arguendo,

the correctness of the finding that the SPRAYMATE B does not cavitate,⁷ and that its operation is therefore not identical to that of the SPRAYMATE, that finding cannot end the inquiry on the issue of contempt. As above indicated, the issue is not identity, but equivalency as defined in *Graver Tank, supra*.

The district court made no express finding on equivalency or non-equivalency. To the extent that an implied finding of at least partial non-equivalency may be seen in the court's statement: "[Beck] has convinced the court that the original SPRAYMATE and the SPRAYMATE B operate in a significantly different way due to the presence of the modified piston [shaft] assembly." (424 F. Supp. at 820), we hold that implied finding to have been clearly erroneous. The evidence simply does not show that the pumps operate "in a significantly different way." To the contrary, the evidence established that the original SPRAYMATE and the SPRAYMATE B operate in substantially the same way. That the SPRAYMATE B operates at an efficiency slightly less than that of the SPRAYMATE, because of lost motion occasioned by the spring in the piston shaft, cannot defeat the application of the equivalency doctrine where, as they are here, "the proper circumstances for its application arise," *Graver Tank, supra*.

First, the SPRAYMATE and SPRAYMATE B operate in accord with the same mechanical principles. The only mechanical effect of the insertion of the spring in the

7. Unlike Panther's experts, Born did not perform pressure measurements on the product on which the contempt charge rested, a commercial SPRAYMATE B, but only on the specially-constructed plastic block model (exhibit DTX-77). Born conceded that his measurements would not be the same on a commercial SPRAYMATE B because the "pressures were limited because of the strength of the plexiglas material."

SPRAYMATE B is a shortening of the 1/4-inch stroke of the SPRAYMATE piston to a 3/16-inch stroke.

Second, the SPRAYMATE and the SPRAYMATE B exhibit significantly reduced power consumption on standby operation, one of the main objectives of the patented invention.⁸

Third, the SPRAYMATE and SPRAYMATE B operate on standby with a driving fluid chamber only partially filled with ethylene glycol. This less-than-full driving fluid chamber (during standby) reduces the workload on the motor and produces the beneficial reduction in power consumption exhibited by both pumps.

Fourth, the SPRAYMATE and the SPRAYMATE B pump approximately the same amount of paint when pumping.

Finally, and perhaps most tellingly, the SPRAYMATE and the SPRAYMATE B avoid overheating of the driving fluid *without* using auxiliary cooling equipment, the main advance of the patented invention over the prior art. Beck made no attempt to explain how the SPRAYMATE B achieves this beneficial cooling result without the use of auxiliary cooling equipment. The entire defense to the charge of contempt herein resided in an effort to prove one fact: that there is no "true" cavitation in the SPRAYMATE B. The defense must fail in light of the more probative fact: *that the SPRAYMATE B does not overheat*. The absence of overheating completes the portrayal of equivalent operating characteristics, and convincingly documents the fact that the SPRAYMATE B does every-

8. Claim 22, *supra*, recites "limit[ing] horsepower consumption" as the purpose of the "cyclic vaporizing and condensing." Claim 19, *supra*, recites a "means * * *" for controlling the consumption of power of the prime mover."

thing the SPRAYMATE did. Panther has convincingly carried its burden of showing the equivalency of the SPRAYMATE B and the infringing SPRAYMATE product.

As stated in *Graver Tank, supra*: "equivalency must be determined against the context of the patent, the prior art, and the particular circumstances of the case." In the present case, the patents in suit, the prior art, and the evidence comparing the SPRAYMATE and SPRAYMATE B, collectively demonstrate equivalency. The two pumps perform the same work in substantially the same way to accomplish the same result, pumping essentially the same amount of paint per unit of time, and operating on standby with reduced power consumption, with a partially-filled driving fluid chamber, without overheating, and without auxiliary cooling equipment.

Civil contempt "is a severe remedy, and should not be resorted to where there is fair ground of doubt as to the wrongfulness of the defendant's conduct," *California Paving Co. v. Molitor*, 113 U.S. 609, 618, 5 S.Ct. 618, 622, 28 L.Ed. 1106 (1885). We find no fair ground of doubt, however, that the SPRAYMATE and SPRAYMATE B are equivalent pumps. Having been enjoined from producing and selling an equivalent pump, it was incumbent on Beck to exercise care in avoiding such conduct. *Kiwi Coders Corp. v. Acro Tool & Die Works*, 250 F.2d 562, 568 (7th Cir. 1957); *National Rejectors, Inc. v. A. B. T. Mfg. Corp.*, 188 F.2d 706, 710 (7th Cir.), cert. den., 342 U.S. 828, 72 S.Ct. 51, 96 L.Ed. 626 (1951); *Blair v. Jeannette-McKee Glass Works*, 161 F. 355, 358 (C.C.W.D.Pa.1908).

Beck argues that Panther is barred by laches. Though the district court did not rule on laches, the evidence convinces us that Panther had no knowledge of Universal's manufacture and sale of the SPRAYMATE B until 1975,

when Schlosser and Drath so informed Panther. Panther filed the present action on February 3, 1976. Thus, there was no long period of inaction by Panther after it learned of Beck's contemptuous activities, and no credible evidence that Beck in any manner relied on any inaction or acquiescence of Panther. Beck's reliance on *Lewis Invisible Stitch Mach. Co. v. Popper*, 33 F.Supp. 812 (E.D.N.Y.1940), *aff'd on other grounds*, 118 F.2d 191 (2nd Cir. 1941), is misplaced. In that case the plaintiff knew of violations of an injunction for a period of over four years before taking action.

We conclude that the district court erred in discharging the order to show cause directed to Beck. Beck acted in civil contempt of court by making and selling the SPRAYMATE B, an "infringing product" as defined in the November 24, 1970 injunction.

II. Substitution of Defendants

Prior to the contempt hearing, Panther moved under Fed.R.Civ.P. 25(c), *supra* note 5, to add or substitute Beck and Universal as defendants. The motion recited that the charter of original defendant Hydrocraft had been cancelled by Ohio in 1975 and that:

Louis Beck and Universal Spray Systems, Inc. are successors in interest of Hydrocraft, and should be substituted or added as defendants in this action [sic] pursuant to Rule 25(c), Fed.R.Civ.P.

* * * Louis Beck admitted in his deposition that he acquired substantially all of the assets and inventory of Hydrocraft and transferred the assets and inventory to Universal Spray Systems, Inc., a company which he entirely owns. Beck in his deposition also admitted that he purchased each of the one-

third interests in Defendant Hydrocraft from Edwin Drath and Paul Schlosser after entry of the Judgment and became the sole stockholder of Hydrocraft. Prior to becoming sole stockholder of Hydrocraft, Beck had been its president and one-third stockholder.

In addition, Beck received in Cleveland 11 tons of inventory from Hydrocraft and transferred it to his wholly owned company, Universal Spray Systems, Inc. The inventory was shipped after entry of Judgment and Injunction in this action without any monetary consideration for the transfer being received by Hydrocraft. The shipped inventory constituted substantially all of the assets of defendant and by taking such action Beck was able to enrich another company under his control and avoid seizure of the assets by plaintiff. The inventory was sold by Louis Beck and Universal Spray Systems, Inc. Not only did Beck and Universal Spray Systems, Inc., gratuitously receive the assets of Hydrocraft, Beck began to manufacture and sell a colorable imitation of a pump adjudged by this court to be an infringement of the patents in suit. * * * In this present case, Beck and Universal Spray Systems, Inc. did not even purchase the assets but gratuitously received them to avoid seizure by plaintiff. Under the circumstances, it is believed clear that the receipt by Beck and Universal Spray Systems, Inc. of the assets of Defendant Hydrocraft constituted a transfer of interest within the meaning of Rule 25(c).

* * * Beck has stated in his deposition that he is sole stockholder of Universal Spray Systems, Inc. Since the company ultimately receiving the assets is under the sole control of Beck, this company merely acts as his alter ego and thus Beck is a successor

in interest and must be personally liable as well as his corporate entity. * * *

* * * For these reasons, it is requested that Louis Beck and Universal Spray Systems, Inc. be added or substituted as party defendants in this action and be bound by the Judgment of \$150,000 rendered against the transferor Hydrocraft.

Clearly, the question raised in the foregoing motion is whether Beck and Universal are successors in interest of Hydrocraft, and therefore liable on the 1970 judgment affirmed by this court in 1972.

[5] The district court denied Panther's motion.⁹

A. Universal

[6] The motion to substitute Universal faces an insurmountable obstacle: lack of personal jurisdiction. "The consistent constitutional rule has been that a court has no power to adjudicate a personal claim or obligation unless it has jurisdiction over the person of the defendant." *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 110, 89 S.Ct. 1562, 1569, 23 L.Ed.2d 129 (1969). The district court's order to show cause was directed *only* to Beck; it did not bring Universal before the lower court. Although we have held, *supra*, that Universal is merely Beck's *alter ego*, that fact cannot alone confer personal jurisdiction over Universal. Accordingly, the appeal from the denial of the motion to substitute Universal is dismissed.

9. Beck argues that denial of a motion to substitute is not an appealable order, citing *Virginia Land Co. v. Miami Shipbuilding Corp.*, 201 F.2d 506 (5th Cir. 1953). That case merely held that such an order "was not a final decision, within the meaning of 28 U.S.C.A. § 1291, in that the order * * * was not * * * an order of dismissal." (201 F.2d at 508). In the instant case, however, there has been a "final decision" of the district court within the meaning of 28 U.S.C. § 1291 (1970) and review of the order denying substitution of Beck is now ripe.

B. Beck

Respecting Beck, however, the lower court held that it had personal jurisdiction over Beck and he has not appealed that ruling. It is *res judicata* that the order to show cause was properly issued by the district court and that it subjected Beck to the district court's jurisdiction.

[7] Notwithstanding its clear jurisdiction over Beck, the district court first held that Rule 25(c) "applies only to actions which are pending" and that "[t]his case is no longer 'pending' because it went to final judgment [in 1970]." (424 F.Supp. at 821.) We agree that Rule 25 applies only to pending actions, but disagree with the view that this case is not pending. As stated in *Moore's Federal Practice*,

Rule 25 has application only to actions pending in the district courts. But this should not preclude substitution after judgment has been rendered in the district court * * * for the purpose of subsequent proceedings to enforce * * * a judgment. [3B *Moore's Federal Practice* ¶ 25.03[1], at 25-101 (2d ed. 1977), footnote omitted.]

This case is a subsequent proceeding to enforce the judgment (and injunction) rendered in 1970; it is therefore pending *again*, and Rule 25 applies.

The district court next held that substitution of a party under Rule 25(c) is discretionary. The Rule has been so interpreted (see *McComb v. Row River Lumber Co.*, 177 F.2d 129 (9th Cir. 1949) and 3B *Moore's Federal Practice* ¶ 25.08, at 25-322 (2d ed. 1977)). From the strict language of the rule, that it is "the action * * * by or against the original party" which "may be continued," Rule 25(c) may be viewed as presuming that the transferee will be made a party. Under that interpretation

discretion would relate only to *continuation against the original party*. That view of Rule 25(c) would also accord with Fed.R.Civ.P. 17(a), which states: "Every action shall be prosecuted in the name of the real party in interest," and substitution under Rule 25(c) would be required by Rule 17(a) when the transferee of an interest is the real party in interest and where as here, the original party (Hydrocraft) has been dissolved.

However, for purposes of this appeal, we will assume, as prior courts appear to have assumed, that application of Rule 25(c) to the substitution of a transferee is discretionary and consider whether the exercise of that discretion in the present case constitutes an "abuse of discretion," applying to the term "abuse" its particular legal meaning:

The term abuse, however, when applied to a court's exercise of its discretion is peculiarly of legal significance, wholly unrelated to the meaning of the same term when used in common parlance. Action that would be necessary in ordinary affairs to make one guilty of an abuse connotes conduct of a different grade than what is meant when a court is said to have abused its discretion. Abuse of discretion in law means that the court's action was in error as a matter of law. And where such abuse exists, reversal will be ordered. See *Cervin v. W. T. Grant Co.*, 5 Cir., 100 F.2d 153, 155, 156. [*Beck v. Wings Field, Inc.*, 122 F.2d 114, 116 (3rd Cir. 1941).]

The district court rested its exercise of discretion here on the view that the "constitutional requirement of due process of law" prevents substitution because "Beck * * * must be given the opportunity to defend against the original infringement charge before liability is imposed upon [him]." (424 F.Supp. at 821, emphasis in original.)

The Fifth Amendment states: "No person shall * * * be deprived of life, liberty, or property, without due process of law * * *." Chief Justice Warren, speaking for the Supreme Court in *Hannah v. Larche*, 363 U.S. 420, 442, 80 S.Ct. 1502, 1514, 4 L.Ed.2d 1307 (1960), stated that:

"Due process" is an elusive concept. Its exact boundaries are undefinable, and its content varies according to specific factual contexts. * * * [A]s a generalization, it can be said that due process embodies the differing rules of fair play, which through the years have become associated with differing types of proceedings. Whether the Constitution requires that a particular right obtain in a specific proceeding depends upon a complexity of factors. The nature of the alleged right involved, the nature of the proceeding, and the possible burden on that proceeding, are all considerations which must be taken into account. * * *

There can be no question that Beck is entitled to the rights protected by the Due Process Clause. Beck is certainly entitled to an opportunity to defend *any* charge made against him. The error in the district court's holding resides in a misperception of the charge against Beck, i. e., in a misperception of the "nature of the alleged right involved" and "the nature of the proceeding" referred to in *Hannah*, *supra*.

Beck, in the motion to substitute, was not charged with "the original patent infringement." Beck was charged with acts by which he became the successor in interest of Hydrocraft, a judgment debtor. The nature of the original tort that resulted in the judgment is immaterial. It could have been libel, slander, assault, battery, patent infringement or some other tort. The charge was

(and is) that Beck is the successor in interest of the judgment debtor and, therefore, liable on the judgment. Against this charge, Beck was entitled under the Due Process Clause to an opportunity to defend himself—to confront the witnesses against him, to cross-examine them, to present evidence in his favor, etc. The record shows that Beck has had his day in court, in a hearing lasting two weeks, on the charge that he is Hydrocraft's successor in interest. There has been no denial of procedural due process.

On the merits of that charge, the unique, overall circumstances of this case demonstrate, as a matter of substantive law, that Beck is the successor in interest of Hydrocraft. In *Wawak Co. v. Kaiser*, 90 F.2d 694, 697 (9th Cir. 1937), this court stated: "a 'successor' is one who succeeds or takes the place of another." The facts clearly show that Beck took the place of Hydrocraft. We hold, therefore, that Beck is Hydrocraft's successor in interest and should be substituted as defendant under Rule 25(c), the procedural rule which must, of course, follow substantive law.

In *Forest Laboratories, Inc. v. Pillsbury Co.*, 452 F.2d 621 (7th Cir. 1971), Judge Cummings, speaking for this court, stated:

The well settled rule of American jurisdictions * * * is that a corporation which purchases the assets of another corporation does not, by reason of succeeding to the ownership of property, assume the obligations of the transferor corporation. 15 Fletcher, *Cyclopedia of the Law of Private Corporations*, § 7122 (1961 Rev. Vol.); *Pennison v. Chicago, Milwaukee & St. Paul Ry. Co.*, 93 Wis. 344, 67 N.W. 702 (1896); *Kloberdanz v. Joy Mfg. Co.*, 288 F.Supp. 817, 820 (D.Colo.1968); *International Ass'n of Machinists and*

Local Lodge No. 954 v. Shawnee Indus., Inc., 224 F.Supp. 347, 352 (W.D.Okl.1963). Exceptions to this rule exist where (a) the purchasing corporation expressly or impliedly agrees to assume the liabilities of the seller, (b) the transaction amounts to a consolidation or merger of the two companies, (c) *the purchasing corporation is merely a continuation of the selling corporation, or (d) the transaction is entered into fraudulently to escape liability.* [Emphasis added.] Fletcher, *supra*, at 191-195; *Kloberdanz v. Joy Mfg. Co.*, *supra*; *International Ass'n of Machinists and Local Lodge No. 954 v. Shawnee Indus., Inc.*, *supra*.

Accord, Golden State Bottling Co. v. NLRB, 414 U.S. 168, 182 n.5, 94 S.Ct. 414, 38 L.Ed.2d 388 (1973); *R. J. Enstrom Corp. v. Interceptor Corp.*, 555 F.2d 277, 281-82 (10th Cir. 1977).

In the instant case, the facts show that exceptions (c) and (d), *supra*, are present and applicable.

- (1) *Universal, Beck's alter ego, is merely a continuation of the selling corporation*

As Panther's motion recited, and as the evidence proved, Beck employed the instrumentality of his *alter ego*, Universal, to effect a continuation of Hydrocraft's business. The operative facts are: (1) the very inventory of parts which Hydrocraft had been using to make the SPRAYMATE was transferred to Universal and used to make the SPRAYMATE B, a substantially identical product (the piston shaft being the only change); and (2) SPRAYMATE, the trademark used by Hydrocraft, was used by Universal, with the mere addition of "Model B." In essence, the entire business of Hydrocraft, 100% owned by Beck, was transferred by Beck to Universal, also 100% owned by Beck.

In *Brunswick Corp. v. Chrysler Corp.*, 408 F.2d 335 (7th Cir. 1969), Chrysler purchased the entire business of The West Bend Company relating to outboard motors and inboard-outboard stern drives. Prior to the purchase, West Bend had accepted a consent decree admitting infringement of two patents on outboard motors. The question was whether Chrysler was in privity with West Bend. This court stated:

The District Court made no decision on the question of privity. It is Chryslers' position that although it purchased the entire business of The West Bend Company relating to outboard motors and inboard-outboard stern drives, it was not a corporate successor to The West Bend Company; that it had no interest or control in the prior suit and is, therefore, not bound by the decree that was entered.

To determine whether privity existed, we must determine whether Chrysler has succeeded in interest to the subject matter of the prior decree.

In *J. R. Clark Company v. Jones & Laughlin Steel Corp.*, 7 Cir., 1961, 288 F.2d 279, we affirmed a decision for *res judicata* where the defendant was not a corporate successor but had purchased that portion of the business of the previous defendant relating to the manufacture of ironing boards including a stock of ironing tables, tools and various other equipment. In *Clark, supra* at page 280 we said: "The case at bar is not one where a vendee merely purchased one or some limited amount of the alleged infringing product. Here, the defendant purchased from the manufacturer the entire business that was devoted to the production of ironing tables."

In the case at bar, Chrysler purchased from The West Bend Company the entire business that was

devoted to the production of "Tiger Shark 800" outboard motors and the inboard-outboard stern drives used with such motors. Furthermore, The West Bend Company, having ceased all operations in the field of outboard motors, transferred both its manufacturing and sale facilities and also its personnel to Chrysler. It follows that Chrysler does stand in the shoes of The West Bend Company with respect to the decree in No. 61-C-102 [the prior action].

We hold that as the proof establishes Chrysler succeeded in interest to the subject matter of the prior decree, it is in privity with The West Bend Company, and is bound by the provisions of the decree entered in No. 61-C-102 [408 F.2d at 338.]

(2) *The transfer was a fraudulent effort to escape liability*

The evidence demonstrates that the transfer of assets from Hydrocraft to Universal was fraudulent and done to escape liability on the judgment. The testimony of Schlosser and Drath, corroborated by Drath's notes, established that Beck had devised a scheme to escape the judgment (and injunction) at the time of the October 8, 1970 meeting in Chicago. Except for the substitution of Cleveland for Europe, Beck implemented his scheme precisely as described in the testimony.

In *Wabash, St. Louis & Pac. Ry. Co. v. Ham*, 114 U.S. 587, 594, 5 S.Ct. 1081, 1084, 29 L.Ed. 235 (1885), the Supreme Court stated:

The property of a corporation is doubtless a trust fund for the payment of its debts, in the sense that when the corporation is lawfully dissolved and all its business wound up, or when it is insolvent, all its

creditors are entitled in equity to have their debts paid out of the corporate property before any distribution thereof among the stockholders. It is also true, in the case of a corporation, as in that of a natural person, that any conveyance of property of the debtor, without authority of law, and in fraud of existing creditors, is void as against them.

And 15 W. Fletcher, *Cyclopedia of the Law of Private Corporations* § 7125 (1973 Rev. Vol.), states:

The rule that a corporation taking a transfer of the property and franchises of another corporation takes the same free from any liability for the general debts of the latter does not apply where the transfer constitutes, either in fact or as a matter of law, a fraud upon the creditors of the other corporation. * * * If the sale is not a bona fide one for a valuable consideration and in the usual course of business, the purchaser is liable for the debts of the seller. [Footnote omitted.]

Hydrocraft's Chicago inventory was substantially the only corporate asset which would have been available to satisfy Panther's judgment.¹⁰ However, Beck converted that inventory to his own use by transferring it to Cleveland, first to Becks Spray Systems, Inc. and then to Universal where it was consumed in making SPRAY-MATE B pumps. This was a fraudulent conveyance. In *Landers Frary & Clark v. Vischer Products Co.*, 201 F.2d 319, 324 (7th Cir. 1953), this court stated:

10. The reasons for Panther's apparent willingness to rely on the injunction alone, for its surprising failure to obtain a supersedeas bond or to move to sequester assets following judgment, and for its failure to seek execution of judgment following appeal and denial of certiorari, do not appear in the record.

In Illinois, a corporation has no right to give away its property leaving its creditors unpaid. Consequently any transfer of its assets not made in the usual course of business and for an adequate consideration will be set aside and the lien of the creditors enforced in equity. *Bouton v. Smith*, 113 Ill. 481. The test in determining the validity of a voluntary conveyance such as we have here as against creditors is whether or not it directly threatens to or does impair or endanger the rights of creditors, *Birney v. Solomon*, 348 Ill. 410, 181 N.E. 318, for, as the court said there, a debtor must be just before he is generous and though a donor may make a conveyance with the most upright of intentions, yet, if the transfer hinders, delays or defrauds his creditors it may be set aside as fraudulent. The intent or motive is immaterial; if the transfer directly tends to or does impair the rights of creditors, it is fraudulent in law irrespective of intent. *Second Nat. Bank of Robinson v. Jones*, 309 Ill.App. 358, 33 N.E.2d 732; *Marmon v. Harwood*, 124 Ill. 104, 16 N.E. 236; *McKey v. McCoid*, 298 Ill. 566, 132 N.E. 233.

The transfer of the inventory, which Beck admitted (note 3, *supra*) belonged to Panther, to Cleveland was a violation of Panther's rights as a judgment creditor. Despite his admission in open court, Beck argues that Hydrocraft was in debt to him in the amount of his invested capital. However, the Hydrocraft preincorporation agreement (exhibit DTX-1), the basis for his argument, states that "the Beck invested capital will be returned to Beck as monies become available through profits from the sale of the corporation's products." (Emphasis added.) Hydrocraft had no profits, so Beck never became entitled to a return of invested capital.

In *Blackinton v. United States*, 6 F.2d 147 (8th Cir. 1925), one corporation bought all the shares of another and took over its property (goods in inventory), leaving nothing in its place. The Eighth Circuit stated: "Clearly, this cannot be done in any way that will leave the creditors of that company without remedy. Such an absorption of assets carries with it necessarily a liability for the debts which those assets might have paid." (6 F.2d at 148.) So here, Beck purchased all of the corporate shares of Hydrocraft for \$200 and looted Hydrocraft of its valuable inventory of parts—an asset that would have been available to satisfy, in whole or in part, Panther's judgment.

In *Texas Co. v. Roos*, 93 F.2d 380 (5th Cir. 1937), a parent corporation caused its subsidiary to pay the parent large dividends during the pendency of the plaintiff's suit against the subsidiary, leaving the subsidiary insolvent and preventing collection of plaintiff's judgment. Liability on the judgment was enforced directly against the parent corporation. The Fifth Circuit stated:

The payment of these dividends should be avoided and set aside, as to [plaintiff], as a fraud upon his rights. Equity has full power to grant relief. Ignoring the corporate entity, the court below went to the heart of the matter and did justice by granting a decree against the [parent] Corporation; citing *Southern Pacific Co. v. Lowe*, 247 U.S. 330, 38 S.Ct. 540, 62 L.Ed. 1142; *Centmont Corp. v. Marsch* (C.C.A.) 68 F.2d 460; *Woodbury v. Pickering Lumber Co.* (D.C.) 10 F.Supp. 761, 766; *Commerce Trust Co. v. Woodbury* (C.C.A.) 77 F.2d 478, 487; *Page v. Arkansas Natural Gas Corp.* (C.C.A.) 53 F.2d 27, 38; *Trustees, etc. v. Payne* (C.C.A.) 65 F.2d 103, 107; *Majestic Co. v. Orpheum Circuit* (C.C.A.) 21 F.2d 720, 724; *In re Kentucky Wagon Mfg. Co.* (D.C.) 3 F.Supp. 958, 962.

Preserving the fiction of separate legal entities, it might have accomplished the same thing by setting aside the fraudulent transfer of assets and levying by equitable attachment or garnishment upon the funds of the judgment debtor in the hands of the [parent] Corporation. As the same result and the right result was reached in the direct method followed by the court below, no one may complain, especially as the insolvent corporate debtor has only one creditor and only one stockholder. [93 F.2d at 383.]

In the present case, Beck, during the pendency of the original litigation, made Hydrocraft judgment-proof by transferring the inventory to Cleveland. Beck did this by means of his effective 100%-stock ownership of Hydrocraft after the meeting held in Chicago on October 8, 1970 where Schlosser and Drath agreed to sell their shares. Beck then proceeded, with full knowledge of the district court's judgment, to render Hydrocraft a worthless shell of a corporation. At the same time, Beck continued to control Hydrocraft's interests by appealing from that judgment, by returning to the district court to seek relief from that judgment under Fed.R.Civ.P. 60(b), and by petitioning for certiorari from this court's affirmance as to Hydrocraft.

For \$200, Beck became owner of 100% of Hydrocraft's stock. He then proceeded to drain off its only significant asset. At the same time, he caused Hydrocraft to pursue an appeal to this court, seeking a reversal of the judgment. If the judgment were reversed, he would pay nothing. If it were affirmed, he would pay also nothing, because he was "not a party" and he had made Hydrocraft judgment-proof. One who attempts fraudulently to evade the judgment of a court does so at his peril. After the entry of judgment in 1970, Beck, by his own acts, made himself

successor of Hydrocraft. As such, he acquired not only its assets but its liabilities.

[8, 9] It is well-established that a transferee pendente lite may be added or substituted in place of the original party to the action. See cases cited in 3B *Moore's Federal Practice*, ¶ 25.08, at 25-323 n. 7 & 8. (2d ed. 1977). In the instant case, the transfer of interest was pendente lite, that is, after entry of judgment but before the appeal was decided by this court. However, the transfer was secret, unknown to Panther until 1975, and Panther's motion could not have been filed earlier. Now that the facts are fully revealed, substitution is proper and should be effected in the interest of justice.

Beck asserts laches as a defense against substitution, arguing, in effect, that the success of his secret transfer should be recognized. The district court did not rule, but the record is clear that the defense must fail on any one of three grounds: (1) the inequity of allowing the secret transfer to succeed and the lack of reliance by Beck on any acquiescence of Panther, (2) lack of knowledge of Panther until 1975, and (3) Fed.R.Civ.P. 69(a), under which the "procedure on execution, in proceedings supplementary to and in aid of a judgment, and in proceedings on and in aid of execution shall be in accordance with the practice and procedure of the state in which the district court is held," the statute of limitations on execution

of judgments in Illinois being 7 years.¹¹ Ill.Rev.Stat., Ch. 77, § 6.

Summary

Accordingly, we vacate the order of the district court and remand the case with instructions: (1) to issue an order holding Beck in civil contempt of court, the contempt consisting in a violation of the terms of the November 24, 1970 injunction by making and selling an "infringing product" (the SPRAYMATE Model B) as defined in that injunction; (2) to issue an order substituting Beck as a defendant in this, the original, case; and (3) to proceed with an accounting. The appeal from the denial of the motion to substitute Universal is dismissed.

It is so ordered.

11. *Reconstruction Finance Corp. v. Goldberg*, 143 F.2d 752, 759 (7th Cir.), cert. den., 323 U.S. 770, 65 S.Ct. 117, 89 L.Ed. 616 (1944), quoted the following from *Luttrell v. Wyatt*, 305 Ill. 274, 283, 137 N.E. 95, 98 (1922):

Mere delay alone, for a period less than that covered by the statute of limitations, is not laches that constitutes a defense. It is only when the delay is accompanied by some other element, rendering it inequitable for the complainant to assert his right, that the laches will bar his right within the statutory period.

ORDER OF THE COURT OF APPEALS FOR THE SEVENTH CIRCUIT DENYING PETITION FOR REHEARING

(Dated December 15, 1977)

No. 77-1142

UNITED STATES COURT OF APPEALS
FOR THE SEVENTH CIRCUIT
CHICAGO, ILLINOIS 60604

PANTHER PUMPS & EQUIPMENT COMPANY, INC.,
Now Morrison Pump Co., Inc.,
Plaintiff-Appellant,

vs.

HYDROCRAFT, INC., PAUL W. SCHLOSSER* and
EDWIN DRATH,
Defendants-Appellees.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR
THE NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION
No. 67-C-201

RICHARD B. AUSTIN, *Judge*

Before

HON. LUTHER M. SWYGERT, *Circuit Judge*

HON. WALTER J. CUMMINGS, *Circuit Judge*

HON. HOWARD T. MARKEY, *Chief Judge**

On consideration of the petition for rehearing and suggestion for rehearing *in banc* filed in the above-entitled

*Hon. Howard T. Markey, Chief Judge of the United States Court of Customs and Patent Appeals, is sitting by designation.

cause by counsel for the appellee Louis Beck, no judge in active service has requested a vote thereon, and all of the judges on the original panel have voted to deny a rehearing. Accordingly,

IT IS ORDERED that the aforesaid petition for rehearing be, and the same is hereby, DENIED.

OPINION OF THE DISTRICT COURT

(Dated December 10, 1976)

No. 67 C 201

IN THE UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

PANTHER PUMPS & EQUIPMENT COMPANY, INC.,
Now Morrison Pump Company, Inc.,
Plaintiff,

vs.

HYDROCRAFT, INC., et al.,
Defendants.

MEMORANDUM OPINION

AUSTIN, District Judge

This cause is once again before me following a two-week contempt hearing which took place in April of this year. The Defendant, Mr. Louis Beck, appeared pursuant to this court's Order to Show Cause, dated February 9, 1976. That order directed Beck to show cause why he should not be held in contempt of court for violating an

injunction issued in 1970 following a jury trial. The Plaintiff corporation brought this action for civil contempt because it believed that Beck's conduct in manufacturing a pump designed for spraying paint constituted a violation of this 1970 injunction entered by this court.

BACKGROUND

Nine years ago, Plaintiff Panther Pumps filed suit against Hydrocraft, Inc., Paul W. Schlosser and Edwin Drath alleging that the Defendants were infringing upon patents held by Panther Pumps. The patents in question involved a paint spray apparatus; specifically, the alleged infringement occurred in the hydraulic pump used to operate the paint sprayer. Following a six-day jury trial in 1970, judgment was entered against the corporate Defendant as well as both individuals charged with infringement. Also, a permanent injunction which forbid Hydrocraft or any of its agents from infringing upon U.S. Patent Nos. 3,254,845 and 3,367,270 was entered. This decision was appealed by the Defendants and the Seventh Circuit affirmed the judgment against the corporation, but reversed as to the two individuals. *Panther Pumps & Equipment Co., Inc. v. Hydrocraft, Inc.*, 468 F.2d 225 (7th Cir. 1972). During the pendency of this appeal, no stay of execution of judgment was sought by the Plaintiff.

The claims disputed in the original trial, and intimately involved the recent contempt proceeding, concern mainly the pump used to power the paint spraying gun. As the Court of Appeals noted, paint spraying is an intermittent operation; when the operator stops spraying paint from the gun, the pump usually continues to operate on "standby". The patented device manufactured by the Plaintiff avoids overheating of the driving fluid during standby through the utilization of a process known as "cavitation

cooling". Cavitation cooling is accomplished by creating a partial vacuum in the driving liquid chamber. When this occurs, some of the liquid in that chamber vaporizes, thereby reducing the temperature of the driving fluid below that which it would be if cavitation cooling did not occur.¹

Following the issuance of the injunction in 1970, Louis Beck, who is presently being accused of contempt, purchased the outstanding stock of Hydrocraft, Inc. from his former partners, Paul W. Schlosser and Edwin Drath. Hydrocraft had by this time ceased functioning as a viable corporation. Its only real asset, a parts inventory, was transferred to Cleveland by Beck, allegedly to keep it from being seized by the Plaintiff.

In 1971, Beck formed an Ohio corporation known as Universal Spray Systems, Inc. and this company began to manufacture a paint spray pump called the "Spraymate B".² Superficially, the original Spraymate and the Spraymate B appear to be identical. However, the pump manufactured by Beck and Universal Spray Systems, Inc. does differ in at least one respect. The Spraymate B possesses a spring-loaded piston shaft which the Defendant Beck argues prevents the Spraymate B from exhibiting phase reversal cavitation or cavitation cooling. Naturally, the Plaintiff disagrees with the argument that phase reversal cavitation does not occur in the Spraymate B.

1. It should be noted that cavitation cooling is also referred to as "phase reversal cavitation". In this context, phase reversal is the process whereby a liquid changes into a gas or vice versa. This process unquestionably occurs in pumps which were manufactured by the Plaintiff.

2. The original pump manufactured by Hydrocraft was referred to as the "Spraymate" pump.

DISCUSSION

Three major issues are before the court at this time. First, it must be determined whether or not Louis Beck and Universal Spray Systems, Inc. are violating the terms of the permanent injunction issued in 1970 by the manufacture of the Spraymate B Pump. Secondly, I must decide whether or not the transfer of Hydrocraft's assets was a contemptuous act on the part of the Defendant Beck. Finally, the Plaintiff urges this court to hold that Louis Beck is now personally bound by the original money judgment entered against Hydrocraft, Inc. at 1970.

SALE OF SPRAYMATE B

[1, 2] The Plaintiff claims that the manufacture and sale of the Spraymate B Pump constitutes a violation of the permanent injunction for which Beck should be held in contempt of court. At the outset of this discussion, it should be noted that the Plaintiff has a heavy burden to bear when attempting to show conduct amounting to contempt. Where there is a "fair ground of doubt" as to the wrongfulness of the defendant's conduct, the remedy of contempt should not be applied. *California Paving Company v. Molitor*, 113 U.S. 609, 5 S.Ct. 618, 28 L.Ed. 1106 (1885). A high degree of certainty is required before the aggrieved party is entitled to a remedial order finding the defendant in contempt. *Accumulator Co. v. Consolidated Electric Storage Co.*, 53 F. 793 (C.C.D.N.J.1892). Some courts state that the Plaintiff must prove that the Defendant acted contemptuously by clear and convincing evidence; a bare preponderance of the evidence will not suffice. See e. g. *Hart, Schaffner & Marx v. Alexander's Department Store, Inc.*, 341 F.2d 101 (2d Cir. 1965); *Washington v. Central of Georgia Railway Co.*, 174 F.Supp. 33 (M.D.Ga.1958), *aff'd sub nom. Marshall v. Central of*

Georgia Railway Co., 268 F.2d 445 (5th Cir. 1959), cert. den. 361 U.S. 943, 80 S.Ct. 407, 4 L.Ed.2d 363 (1960). Still other courts have said that the infringement complained of in the contempt proceeding must clearly and indisputably appear to be continuing in violation of the original injunction. *General Electric Co. v. McLaren*, 140 F. 876 (C.C.D.N.J.1905). Cf. *Smith v. Halkyard*, 19 F. 602 (C.C. R.I.1884). A degree of certainty which leaves no fair ground of doubt as to the violation of the court's order is required. Where there is ground to doubt the wrongfulness of the conduct of the defendant, he should not be adjudged in contempt. *Schauffler v. Local 1291, International Longshoremen's Association*, 292 F.2d 182 (3rd Cir. 1961); *Electro-Bleaching Gas Co. v. Paradon Engineering Co., Inc.*, 15 F.2d 854 (E.D.N.Y.1926).

As can be seen from the precedent cited above, the Plaintiff in this case must overcome a heavy burden if he is to successfully prove that the Defendant is guilty of contempt for manufacturing the Spraymate B.

The test utilized by most courts in determining whether the manufacture of a modified device constitutes contempt of court for continuing patent infringement is one of "equivalency" or "colorable imitation". In fact, the text of the 1970 injunction forbid the manufacture or sale of any "colorable imitation or equivalent" of the original Spraymate pump.

[3] The basic question which the court must determine is whether or not the modified device, in this case the Spraymate B pump, is the equivalent of the original device. See e. g., *Schlegel Manufacturing Company v. USM Corp.*, 525 F.2d 775 (6th Cir. 1975). In order for the new pump to be the equivalent of the earlier patented device, it must perform the same tasks, utilizing the same basic methods as were patented originally. *Marston v.*

J. C. Penney Co., 324 F.Supp. 889, 893 (E.D.Va.1971), aff'd 469 F.2d 694 (4th Cir. 1972). To frame this question in different terms, I must decide if the new device is only a colorable variation of the original model. See generally *Sierbing v. Hansen*, 346 F.2d 474 (6th Cir. 1965). A device is only a colorable variation of an earlier device if it does the same work in substantially the same way to accomplish the same result. *McCullough Tool Co. v. Well Surveys, Inc.*, 395 F.2d 230 (10th Cir. 1968), cert. denied, 393 U.S. 925, 89 S.Ct. 257, 21 L.Ed.2d 261 (1968). If the new device or implement is more than colorably different from the earlier patented one, a finding of contempt is improper. *American Foundry & Manufacturing Co. v. Josam Manufacturing Co.*, 79 F.2d 116 (8th Cir. 1935). In the *American Foundry* case, that court defined the word "colorable" as meaning a lack of a fair ground for doubt. Citing the Supreme Court's opinion in *California Paving Company v. Molitor*, supra, the Eighth Circuit concluded that a device was more than "colorably different" from the original patented object if there was a fair ground of doubt as to the similarity of the two devices. Where such a fair ground of doubt exists, there can be no punishment for contempt. See generally *City of Campbell, Missouri v. Arkansas-Missouri Power Co.*, 65 F.2d 425 (8th Cir. 1933); *Crown Cork & Seal Co. v. American Cork Speciality Co.*, 211 F. 650 (2d Cir. 1914).

[4] It is with this background in mind that the evidence presented at the two-week contempt hearing must be examined. The existence or non-existence of phase reversal cavitation is the crucial issue to be determined at this point in these proceedings. The record before me indicates that the Plaintiff, in the original trial and appeal, took the position that phase reversal cavitation occurred in the Spraymate pump. In fact, the Court of Appeals implied as much in its opinion when it stated

that cavitation cooling was an element of the original patented invention. *Panther Pumps & Equipment Co., Inc. v. Hydrocraft, Inc.*, *supra* at 230. Thus, phase reversal at the vapor pressure of the driving fluid was necessary in order to infringe upon the patents for the original Spraymate pump. The Plaintiff, having taken this position at trial, cannot now alter it at the contempt proceeding. *Union Carbide & Carbon v. Graver Tank & Manufacturing Co.*, 196 F.2d 103 (7th Cir. 1952).

[5] At the two-week long contempt hearing, each side presented expert testimony relating to the presence or absence of phase reversal. Certain physical tests were performed by each group of experts and the results of these tests were utilized to support the conclusions reached. After hearing the evidence presented, and carefully considering the entire record before me, I must conclude that the Plaintiff has not successfully carried his burden. The evidence presented does not convince me that phase reversal or cavitation takes place during the operation of the Spraymate B pump while on standby. The claims of the patents on the original Spraymate pump require phase reversal cavitation and this process cannot take place unless the vacuum in the chamber is at the vapor pressure of the ethylene glycol fluid. The expert witnesses of the Defendant Beck testified that cavitation did not occur in the operation of the Spraymate B pump and I find that testimony persuasive. The testimony I have heard leads me to conclude that the Spraymate and the Spraymate B do not perform their functions in substantially the same fashion. The Spraymate B pump possesses a modified piston shaft with a spring device which limits the amount of force applied to pull the piston backward while in operation. By limiting the amount of force applied to the piston, through the utilization of the spring-

loaded piston shaft, the inventor of the Spraymate B pump has prevented the occurrence of phase reversal or cavitation. Consequently, there can be no holding of contempt for the manufacture and sale of the Spraymate B.

[6] As indicated above, the Plaintiff carried a heavy burden in a proceeding of this nature. That burden has simply not been met by the evidence presented during the two-week hearing held in April. The Defendant Beck, on the other hand, has gone further than necessary in rebutting the Plaintiff's contentions; he has convinced the court that the original Spraymate and the Spraymate B operate in a significantly different way due to the presence of the modified piston assembly. Where an alteration is merely colorable and obviously made simply for the purpose of evading an earlier ruling of the court, contempt remedies are desirable. However, when the alleged infringement is not clear on the fact of the matter, the accused party will not be held in contempt of court. *R.C.A. v. Cable Radio Tube Corp.*, 66 F.2d 778, 783 (2d Cir. 1933). The alleged infringement in this litigation is anything but clear; in fact, I do not believe that any infringement occurred when the Spraymate B was manufactured and sold by Defendant Beck. For these reasons, the Plaintiff's attempt to hold the Defendant in contempt of this court for violating the terms of the 1970 injunction must fail.

ASSET TRANSFERS

The Plaintiff further asks that Louis Beck be held in contempt of court for the transfer of assets from Hydrocraft, Inc. to an Ohio corporation called Universal Spray Systems, Inc. During late 1970 and early 1971, the parts inventory of Hydrocraft was physically transferred to

Cleveland, at the direction of Louis Beck, where they were ultimately utilized by Universal Spray Systems, Inc.³

[7, 8] At no time did this court enter an order prohibiting Hydrocraft from transferring any assets; no order was ever entered prohibiting Beck from either causing the transfer or receiving these assets. Since Beck was never specifically barred from performing these allegedly contemptuous acts, the Plaintiff is apparently urging that I hold Beck in contempt for the violation of an implied order of some type. This I will not do because the remedy of civil contempt is a severe one which should be utilized only when a specific directive or order has been issued. *See e. g. In re LaMarre*, 494 F.2d 753, 758 (6th Cir. 1974); *Berry v. Midtown Service Corp.*, 104 F.2d 107, 111 (2d Cir. 1939). *Cf. McFarland v. U. S.*, 295 F. 648 (7th Cir. 1923). No specific command was ever issued to the parties or Beck during the course of this litigation which would have prevented the transfer which took place. Therefore, Beck cannot be found in contempt for these acts.

[9] Additionally, the Plaintiff argues that the transfer of Hydrocraft assets constitutes contributory patent infringement. This position is without merit because it is clear that there can be no contributory patent infringement without a direct infringement. *See e. g. Aro Manufacturing Co., Inc. v. Convertible Top Co., Inc.*, 365 U.S. 336, 81 S.Ct. 599, 5 L.Ed.2d 592 (1961). The Plaintiff in this contempt proceeding has not produced enough evidence to convince the court that Beck should be held in contempt for violation of the 1970 injunction for manufacturing and selling the Spraymate B pump. Therefore, I

3. It should be noted that these transfers took place after the issuance of the permanent injunction barring the production of the original Spraymate pump. Hydrocraft, Inc. was, for all practical purposes, defunct at this time.

will not make any finding of direct patent infringement in these contempt proceedings.

SUBSTITUTION OF DEFENDANTS

[10] The Plaintiff has moved, pursuant to Rule 25 (c) of the Federal Rules of Civil Procedure, for an order substituting Louis Beck and Universal Spray Systems, Inc. as defendants in the original litigation, which resulted in a \$150,000 judgment against Hydrocraft, Inc.

Rule 25(c) is worded as follows:

(c) *Transfer of Interest.* In case of any transfer of interest, the action may be continued by or against the original party, unless the court upon motion directs the person to whom the interest is transferred to be substituted in the action. . . .

Generally, Rule 25(c) applies only to actions which are pending. This case is no longer "pending", since it went to final judgment six years ago. However, the Plaintiff urges that in certain situations, substitution of parties after entry of judgment is proper. *See generally*, 3B J. Moore, *Federal Practice* ¶ 25.03[1], at 25-101 (2d ed. 1975). The Plaintiff further contends that Beck and Universal Spray Systems became successors in interest of Hydrocraft at the time the parts inventory was transferred from Chicago to Cleveland. It is argued that Beck should be held liable for the \$150,000 judgment entered against Hydrocraft because he engineered a fraudulent transfer of the assets of the original defendant so as to make Hydrocraft judgment-proof.

[11-13] The very nature of Rule 25(c) vests a great deal of discretion in the hands of the court. It is not mandatory that a substitution be made in every case of a transfer of interest. *McComb v. Row River Lumber Co.*,

177 F.2d 129 (9th Cir. 1949). I personally have grave doubts about transferring liability to an individual and a corporation who were not parties to the original lawsuit. In my opinion, due process and principles of basic fairness require that an individual be given his day in court. Beck and Universal Spray Systems have never had the opportunity to present evidence against the imposition of liability with regard to the original infringement charge and, of course, the issue of liability is now immune from collateral attack. The Plaintiffs argue that Beck cannot complain of a denial of due process because he had ample opportunity to present evidence relating to the transfer of assets in 1970, during the contempt hearing held in April. By arguing in this fashion, the Plaintiff fails to understand the very nature of the due process right possessed by Beck and Universal Spray Systems. Beck and Universal *must* be given the opportunity to defend against the original infringement charge before liability is imposed upon them. They never had this opportunity, and the chance to present evidence relating to issues other than the original infringement in a later contempt hearing is not an adequate substitute. I do not believe that Rule 25(c) can be utilized in the manner sought by the Plaintiff. The Federal Rules of Civil Procedure were not designed to avoid the constitutional requirement of due process of law.⁴ Once a case has proceeded to judgment, any opportunity a person such as Beck would have had

4. Most of the precedent cited by the Plaintiff to support its contentions is plainly distinguishable from the case at bar because of the lack of a final judgment in those cases. See e. g. *Hirsch v. Bruchausen*, 284 F.2d 783 (2d Cir. 1960). The one case referred to by the Plaintiff which had not yet gone to final judgment, *Becker Steel Co. of America v. Hicks*, 66 F.2d 497 (2d Cir. 1933), plainly involved a very different factual pattern than is present in the case before me now. One other case cited by the Plaintiff in support, *United States v. Jones Coal Company*, 325 F.2d 877 (6th Cir. 1966), does not even remotely deal with any issue before this court.

to defend the infringement charge is lost permanently. It seems grossly unfair to impose a significant financial liability upon an individual under these circumstances and for these reasons, I will not do so.

[14, 15] Additionally, the Plaintiff claims that Beck should be held personally liable for the outstanding judgment because he is the alter ego of Defendant Hydrocraft. In essence, the Plaintiff is asking this court to "pierce the corporate veil" and impose liability upon Beck because he and Hydrocraft were, in reality, one single entity. In order to apply the alter ego doctrine, a finding of control and domination of the corporation on the part of the individual is necessary. See e. g. *U. S. v. Sancelmar Industries, Inc.*, 347 F.Supp. 404 (E.D.N.Y.1972). I cannot make such a finding based upon the record. The evidence presented during the contempt hearing does not show complete domination of the corporate entity by Beck. In the situation existing between Beck and Hydrocraft, there was no unity of interest between the individual and the corporation. The separate existence of the corporation was always maintained and Beck never exercised anything even resembling domination over Hydrocraft. He was simply an investor who left the day-to-day operations of the corporation in the hands of his two partners. Plainly, the facts present in this case do not allow me to pierce the corporate veil and impose personal liability upon Beck. See generally, *National Bond Finance Co. v. General Motors Corp.*, 238 F.Supp. 248 (W.D.Mo.1964), *aff'd*, 341 F.2d 1022 (8th Cir. 1965).

CONCLUSION

Overall, the Plaintiff simply failed to bear its burden in this contempt proceeding. As was indicated above, that burden was a particularly heavy one and it perhaps might have been wiser for the Plaintiff to choose another course of action to attempt to put a stop to actions which it considered improper. But the Plaintiff selected the contempt proceeding as its means of attack, and it must live with the consequences of that choice.

Recently, the Plaintiff moved for permission to re-open the contempt hearing for the taking of additional testimony. Specifically, the Plaintiff wishes to obtain testimony from another expert regarding the vacuum pressure within the driving chamber of the Spraymate pump. An affidavit supplied by the potential witness indicated what the nature of his testimony would be. Even if this witness proved to be most persuasive, he could still not overcome the evidence already heard from the Defendant. This additional testimony would not dispel the fair ground of doubt which I have as to the contemptuous nature of the Defendant's conduct in manufacturing the Spraymate B. Therefore, it is pointless to hear this additional testimony. The Plaintiff's motion to re-open the hearing must be denied.

The order to show cause is hereby discharged and the Plaintiff's motion to substitute Louis Beck and Universal Spray Systems, Inc. as party defendants is denied.

It is so ordered.

**ORDER OF THE SUPREME COURT OF THE
UNITED STATES DENYING PETITION FOR
WRIT OF CERTIORARI**

(Dated May 7, 1973)

No. 72-1124

SUPREME COURT OF THE UNITED STATES

HYDROCRAFT, INC., *et al.*,
Petitioners,

vs.

PANTHER PUMPS & EQUIPMENT COMPANY, INC.,
Respondent.

Petition for writ of certiorari to the United States Court of Appeals for the Seventh Circuit. Denied.

**OPINION OF THE COURT OF APPEALS FOR THE
SEVENTH CIRCUIT**

(Decided October 24, 1972)

No. 71-1125

UNITED STATES COURT OF APPEALS
FOR THE SEVENTH CIRCUIT

PANTHER PUMPS & EQUIPMENT CO., INC.,
Plaintiff-Appellee,

vs.

HYDROCRAFT, INC., PAUL W. SCHLOSSER and
EDWARD DRATH,
Defendants-Appellants.

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

STEVENS, *Circuit Judge.*

A jury found one claim in each of two patents¹ owned by plaintiff valid and infringed by defendants' paint spray unit and awarded damages of \$150,000 against the corporate defendant and \$5,000 against each of the two individual defendants.

1. Claim 23 of Patent No. 3,254,845 relating to "fluid power transfer apparatus" issued on June 7, 1966; and claim 19 of Patent No. 3,367,270 issued on February 6, 1968. Both patents issued to Panther Pumps & Equipment Company, Inc., as assignee of Paul W. Schlosser.

This appeal raises six separate issues: (1) whether the court erred as a matter of law or abused its discretion by refusing to submit 32 special interrogatories to the jury; (2) whether the court permitted the jury to find infringement of a dependent claim after ruling that the claim from which it depends is not infringed; (3) whether a claim on an apparatus designed to avoid overheating by means of "cavitation cooling" can be infringed by a pump which operates at an increased temperature on standby; (4) whether the fact that one of plaintiff's licensees agreed not to contest the validity of the patent is a "misuse" which forecloses any relief against infringers; (5) whether the damage award against the corporate defendant is excessive; and (6) whether separate recovery against the individual defendants is proper. Except for the last point, we find no merit in defendants' appeal. Only a brief statement of the facts is necessary as a preface to our discussion of the issues.

The claims describe a hydraulic pump used to operate a paint spray gun. Spray painting normally is an intermittent operation; frequently, instead of turning off the entire unit when spraying is discontinued, the pump continues to operate on "standby." The patented invention improves the efficiency of standby operation.

The apparatus contains one chamber housing the "driving fluid" and another containing the paint, or "pumped fluid." The standby operation is designed to permit the immediate resumption of spraying without permitting the continued operation of the power source in the driving fluid chamber to cause a substantial buildup of pressure or temperature when the gun is not spraying paint. In the prior art, overheating of the driving fluid was avoided by recirculation of that fluid through bulky auxiliary equipment which included heat exchange apparatus such

as a relatively large cooling tank. Much of that auxiliary equipment may be eliminated by the use of the patented invention which takes advantage of the cooling effect which occurs when liquid is evaporated. By creating a partial vacuum, or "cavitation," in the driving liquid chamber, some of the liquid vaporizes and produces "cavitation cooling." Some of the bulk and inefficiency of prior art pumps is thereby obviated.

Schlosser and Drath, the two individual defendants, are former employees of the plaintiff. Schlosser conceived the patented invention and assigned it to plaintiff while still in plaintiff's employ. Subsequently, he, Drath, and a third party organized the defendant corporation and in due course developed the infringing models which are manufactured and sold by the corporate defendant. This simple history, stressed repeatedly during the trial, may explain plaintiff's unusual decision to demand a jury trial in a patent case.

I.

Defendants challenge the manner in which the case was submitted to the jury. Defendants do not argue that it was error to submit either the entire case or any specific issue to the jury.² The contention is not that the jury was permitted to decide questions of law; rather, it is argued that in view of the way the jury verdict was reached, it is impossible for a reviewing court to determine whether the three-step analysis required by *Graham v. John Deere Co.*, 383 U.S. 1, 17, 86 S.Ct. 684, 15 L.Ed.2d 545, was properly made.

2. All issues relating to validity and infringement were treated as issues of fact and submitted to the jury with four special interrogatories. The special interrogatories asked whether each of the two claimed patents were valid and whether they were infringed.

As defendants phrase their argument, "The Legal Conclusion On Patent Validity Must Be Reversed For Failure To Give Verbal Expression To The Required Factual Determinations."³ Defendants argue that "without such findings, there is no way for a reviewing court to determine whether the correct legal standard was applied."⁴

[1, 2] Unquestionably, the issue of validity is a question of law. Moreover, as this court squarely held after considering the matter *en banc*, the issue of obviousness is also a question of law. *Armour & Co. v. Wilson & Co.*, 274 F.2d 143, 151-157 (7th Cir. 1960). But we also concluded in *Armour* that "the rules governing the trial of patent cases are no different than in other types of civil litigation, and further, that the scope of our review on appeal follows the same pattern." *Id.* at 157.⁵

[3, 4] In a patent case, as in any other case tried to a jury, questions of law are for the court and questions of fact are for the jury.⁶ Our rules do not contemplate that a jury may be asked to make the kind of detailed findings of fact which Rule 52(a) of the Federal Rules of Civil Procedure requires of a judge who sits without a jury. Therefore, if defendants are, in effect, arguing

3. Appellants' brief, p. 17.

4. *Id.* at 16.

5. In stating the question before the *en banc* court in that case, Judge Hastings also pointed out that "it can hardly be resolved in such abstract terms limited to patent litigation. It can better be considered in the light of our appellate review of civil litigation generally." 274 F.2d at 151.

6. We note that both parties and the court confused issues of fact with issues of law. For example, defendants' requested special interrogatory number 27 reads as follows:

"27. If the answer to Interrogatory No. 26 is 'no', would the claimed invention of U.S. Patent No. 3,367,270 have been obvious to one skilled in the art of piston-diaphragm pumps and who had all the prior art before him, including British Simpson Patent No. 887,774?"

that such findings must be made by a jury in a patent case, the argument is unacceptable.

[5] In the normal jury trial, allocation between judge and jury of their respective decisional responsibilities may be accomplished by the use of special interrogatories or special verdicts, or by the court's instructions to the jury before it returns a general verdict. Which method is appropriate in a particular case is a matter to be determined by the wise discretion of the trial court in the circumstances of the particular litigation before it. When only two or three narrow issues of fact, such as the date of invention or perhaps the date of first public sale, determine the issue of patent validity, it may be entirely appropriate to submit special interrogatories to the jury. But if, as in this case, one party contends that as many as 32 separate fact questions must be resolved, the trial judge certainly may consider it inappropriate to use the special interrogatory procedure.⁷

[6] In this case, the trial judge was not required, as a matter of law, to submit special interrogatories to the jury, and we hold that he did not abuse his discretion in refusing to do so.

[7] This holding does not mean, as defendants contend, that the legal conclusion on patent validity may not be reviewed under the *John Deere* guidelines whenever a jury returns a general verdict. As in any other jury trial, the court's rulings on questions of law are subject to review. If the ultimate issue of validity depends on subsidiary fact questions, it is the court's duty to instruct the jury that it should return one verdict if the facts

7. The trial judge made it clear that he thought the use of 32 special interrogatories would confuse the jury. A. 59 (quoting transcript of June 17, 1970, at 19).

are found one way and a different verdict if the facts are found otherwise.⁸ In such event, as in other cases tried to a jury, the reviewing court will presume that the disputed matters of fact have been resolved favorably to the prevailing party in accordance with the trial judge's instructions.

The task of giving error-free instructions in a patent case may indeed be extremely difficult.⁹ But we are not asked in this case to consider whether the instructions to the jury were improper in any respect. We therefore have no occasion to express any opinion about the adequacy of the instructions as a whole, or any specific instruction which may have been given over the objection of the losing party.¹⁰

We therefore find no merit in the attack which appellants have made on the procedure followed by the trial judge in submitting this case to the jury.

8. Of course, if there are no disputed fact issues affecting validity, the court may simply instruct the jury that the patent is either valid or invalid.

9. Presumably this is only one of the many reasons why members of the Patent Bar have wisely avoided jury trials in patent litigation. "Most patent cases are tried to the court. In fiscal 1968, 1969, and 1970, the total number of patent cases going to trial and the number of patent cases going to juries were, respectively: 1968—131, 2; 1969—132, 8; and 1970—119, 3. Annual Report 1968-1970, Table C-8." *Blonder-Tongue Laboratories, Inc. v. University Foundation*, 402 U.S. 313, 336, 91 S.Ct. 1434, 1447, 28 L.Ed.2d 788.

10. No argument directed at the form of the instructions has been advanced by appellants. Indeed, prior to oral argument the instructions were not even made a part of the record on appeal. Four days after argument, appellants filed a motion to amend the record by the addition of the instructions. We have granted that motion. However, we refuse to consider any issues raised for the first time after oral argument, particularly since appellants' belated attack on the instructions amounts to little more than a general invitation to review the record in search of error.

II.

[8] Each of the infringed claims depends from a broader claim. Thus, claim 23 of the '845 patent reads:

"23. A fluid power transfer apparatus substantially as set forth in claim 22, said prime mover being a pump, and said variable load material being a paint spray gun."

Claim 22, in turn, depends from claim 1 of the '845 patent.¹¹ and claim 19 of the '270 patent depends from claim 12.¹²

11. Claims 22 and 1 of patent '845 read as follows:

"22. A fluid power transfer apparatus substantially as set forth in claim 1 including a variable load material in combination with said housing, and wherein said movable means is a prime mover for moving said variable load material, said drive fluid is a liquid disposed between said prime mover and said variable load comprising relatively incompressible liquid means interposed between said prime mover and said variable load material and means responsive to variations of the variable load material being driven for controlling a conditions establishing driving and non-driving relationships of said prime mover and said variable load material, said non-driving relationship being characterized by cyclic vaporizing and condensing of said liquid whereby to limit horsepower consumption of said prime mover."

"1. A fluid power transfer apparatus including a housing defining chamber, a driving fluid in said chamber, said fluid having reversible vapor and liquid phases, and movable means for alternately applying and removing pressure forces to and from said fluid to cause reversal between said phases."

12. Claims 19 and 12 of the '270 patent read as follows:

"19. The liquid driven diaphragm fluid pump of claim 12 wherein the reciprocating piston comprises a power means for driving a variable capacity load of pumped liquid, a driving liquid disposed between said reciprocating piston and said variable capacity load of pumped liquid, and automatically activated means responsive to the demand of said load for controlling the consumption of power of the prime mover."

"12. In a liquid driven diaphragm fluid pump of the character described wherein the diaphragm has limiting positions of movement in the pump housing, a reciprocating piston in said housing for driving a mass of liquid for driving

(Continued on following page)

It is clear as defendants argue, that a product which did not infringe claim 22 of the '845 patent could not infringe claim 23. Thus, if the court made a final adjudication of noninfringement of claims 1 and 22 of the '845 patent and claim 12 of the '270 patent, such an adjudication would foreclose recovery for infringement of the claims in suit.

[9] Defendants contend that the district court's direction of a verdict against plaintiff on all claims except 23 of '845 and 19 of '270 should be so construed. The record clearly establishes, however, that the trial judge merely intended to preclude recovery on any claim except insofar as it was incorporated by reference in claims 23 and 19. Thus, to the extent that infringement of claims 1 and 22 of the '845 patent was an essential element of plaintiff's proof of infringement of claim 23, the judge's ruling was not intended to foreclose that element of plaintiff's case. We do not construe the judge's action, as explained in the colloquies which preceded his direction of a verdict on all claims except 23 and 19, portions of which are set forth in the margin, as an adjudication

Footnote continued—

said diaphragm, means for controlling the quantity of the liquid in said housing comprising, a source of driving liquid, liquid supply valve means in liquid communication between said source and the mass of liquid, means for biasing said supply valve means to closed position and being opened by relatively low liquid pressure, liquid vent valve means in liquid communication with the mass of liquid and liquid low pressure outlet for said vent valve means, said vent valve means being biased to closed position and being opened by pressure exerted by the driving liquid when said exerted pressure exceeds the pressure of the pumped fluid by a predetermined degree of pressure, and valve means on the pumped fluid side of the diaphragm for controlling the delivery of pumped fluid and including a closable pumped fluid port, said control valve means, when closed, causing operation of said vent valve means at one limiting position of the diaphragm."

of noninfringement of the broader claims incorporated by reference in the infringed claim.¹³

If the defendants' interpretation of the court's directed verdict were correct, there would have been no occasion for defendants to spend an entire week of trial putting in their defense. They would have asked for and received

13. On the day before plaintiff rested, the following occurred:

"THE COURT: Well, I mean, let's simplify it ultimately. You are relying on 19 by virtue of the fact 19 embraces 12 and to the extent that it embraces 12, right?"

"MR. PETHERBRIDGE: Yes.

"THE COURT: And the other patent, 23, to the extent that it embraces 22, and 22 embraces 1?"

"MR. PETHERBRIDGE: Right.

"THE COURT: By reference. It is a reference.

"MR. PETHERBRIDGE: Right, so that you have a complete claim, and the claim here then in the suit—the first patent in suit—Claim 23 is a combination claim embracing all of the elements set forth in 21, 22 and 23." A. 165.

The next day, when plaintiff completed its case, this colloquy occurred:

"THE COURT: What are the motions?"

"MR. SHULMAN: We move for a directed verdict, first of all, on all claims of the -845 patent except claim 23, which defendant has conceded—

"THE COURT: I mean with the exception that 23 embraces 22 and 1.

"MR. SHULMAN: It embraces them by reference, but 22 by itself and 1 by itself, they are not asserting, is that right?"

"MR. PETHERBRIDGE: For the purposes of this trial only, we are asserting the infringement of that composite claim.

"MR. SHULMAN: It is only one claim.

"THE COURT: In regard to the -845 patent you are only asserting Claim 23.

"MR. PETHERBRIDGE: Yes.

"MR. SUSMAN: As it incorporates by reference.

"THE COURT: That is what the issue is in regard to from now on." A. 166.

a directed verdict on claims 23 and 19. That they did not lends support to our conclusion. We find no merit in defendants' argument on appeal that the judge's direction of a verdict on all claims except 23 and 19 should foreclose recovery for infringement of the two claims he obviously intended to preserve.

III.

[10] Defendants correctly point out that "cavitation cooling" is an element of the patented invention even though those words do not appear in the claims. Defendants adduced evidence indicating that the temperature of the fluid in their pump increases from about 68° to 124° during standby operation. Since the operation resulted in heating the fluid, it is argued either (a) that a patent which requires "cooling" cannot have been infringed, or (b) that if "heating" is construed as infringing the "cooling claim," the claim is invalid for vagueness.

We regard these arguments as little more than a play on words. As we understand the "cooling" concept, whether by cavitation or by circulation through a heat exchanger, it merely involves the removal of some heat that would otherwise cause a higher temperature. Conceivably, without cavitation cooling, the temperature of the liquid in defendants' pump during the standby operation would increase much more than it does; if so, the system tended to avoid overheating; we believe minimizing heating is "cooling" within the meaning of the patent specifications.¹⁴ We find no merit in the contention that a cooling system must necessarily cause a temperature decline.

14. As plaintiff's expert testified, a fan is "cooling" an automobile radiator even though its temperature may be rising as a car is being driven. See Tr. 1127.

IV.

On June 14, 1967, plaintiff granted a license under the '845 patent to Lake Erie Machine Company (LEMCO). LEMCO is not a party to this litigation and the position it may occupy in any relevant market is not indicated by the record. The LEMCO license agreement contains the following provision:

"A. During the life of this Agreement or any extension or continuation thereof, LEMCO agrees not to contest the validity of PANTHER Patent Number 3,254,845 or any continuation, divisions or reissues thereof or any corresponding foreign patents, provided however that no royalties shall become payable under this Agreement on subject matter of claims after a finding of invalidity of such claims by any competent court of final Appellate Jurisdiction."

In *Lear, Inc. v. Adkins*, 395 U.S. 653, 89 S.Ct. 1902, 23 L.Ed.2d 610, decided in 1969, the Supreme Court held that a licensee is not estopped to challenge the validity of a patent; in view of that holding, the "no contest" provision in the LEMCO license is plainly unenforceable.¹⁵ Defendants would therefore have us conclude that such a provision in a license is a "misuse" of the patent which forecloses recovery of damages for infringement by a non-licensee.

15. Plaintiff does not dispute this proposition. Note also the Court's comment on the provision in the *Lear* license requiring payment of royalties by the licensee until the patent is held invalid:

"The parties' contract, however, is no more controlling on this issue than is the State's doctrine of estoppel, which is also rooted in contract principles." 395 U.S. at 673, 89 S.Ct. at 1912.

A fair evaluation of defendants' argument requires us to identify two different lines of authority. The first is "the series of decisions in which the Court has condemned attempts to broaden the physical or temporal scope of the patent monopoly." *Blonder-Tongue Laboratories, Inc. v. University Foundation*, 402 U.S. 313, 343, 91 S.Ct. 1434, 1450, 28 L.Ed.2d 788. It is this line of cases in which the "misuse" doctrine developed. "A second group of authorities encourage authoritative testing of patent validity." *Id.* at 344, 91 S.Ct. at 1451. Although the Court explained that the *Lear* opinion relied on both lines of authority, it expressly stated that its "holding that licensee estoppel was no longer tenable was rooted in the second line of cases eliminating obstacles to suit by those disposed to challenge the validity of a patent." *Id.* at 345, 91 S.Ct. at 1451. In our opinion neither of these two lines of cases justifies the application of the "misuse" doctrine in this case.

We have recently recognized the force of the policy of encouraging authoritative testing of patent validity. *Business Forms Finishing Service, Inc. v. Glowiak*, 452 F.2d 70 (7th Cir. 1971). That policy, however, is not served by a rule which enables an infringer to escape liability without challenging the validity of a patent.

[11] The policy underlying the misuse doctrine is designed to prevent a patentee from projecting the economic effect of his admittedly valid grant beyond the limits of his legal monopoly.¹⁶ Misuse of the patentee's economic monopoly no doubt would have made the "no

16. See *Mercoid v. Mid-Continent Investment Co.*, 320 U.S. 661, 680, 64 S.Ct. 268, 88 L.Ed. 376 (Mr. Justice Jackson dissenting). See also the cases cited in *Blonder-Tongue Laboratories, Inc. v. University Foundation*, 402 U.S. 313, 344 n. 40, 91 S.Ct. 1434, 28 L.Ed.2d 788, particularly *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 62 S.Ct. 402, 86 L.Ed. 363.

contest" clause in the LEMCO license unenforceable even before *Lear* was decided, but the cases limiting the manner in which a patentee may exploit his monopoly contain no suggestion that the existence of such a clause should itself be considered a "misuse."

Although the Supreme Court has unequivocally condemned the use of a patent as a beachhead from which competition in unrelated lines of commerce may be assaulted, it has also recognized that a patentee has a right to a full monopoly return on the invention which he has discovered and disclosed to the public.¹⁷ It is his right to that return which provides the incentive for invention and disclosure which the entire patent system is designed to encourage. A fair appraisal of the policy considerations which underlie the patent system itself, in our view, makes it inappropriate to preclude enforcement of a valid patent against an infringing non-licensee simply because an unenforceable provision has been included in a patent license agreement.

[12] The case would, of course, present a different issue if either the license provision or the patentee's exploitation of his patent produced economic consequences raising serious questions under the antitrust laws. Such questions were present in *United States v. Singer Mfg. Co.*, 374 U.S. 174, 83 S.Ct. 1773, 10 L.Ed.2d 823,¹⁸ and were

17. An early precursor of the *Lear* holding recognized not only that it is "important to the public that competition should not be repressed by worthless patents," but also "that the patentee of a really valuable invention should be protected in his monopoly." See *Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 234, 12 S.Ct. 632, 636, 36 L.Ed. 414.

18. Defendants rely heavily on the footnote in Mr. Justice White's concurring opinion, 374 U.S. at 200, 83 S.Ct. 1773, as indicating that the subsequent decision in *Lear* should have been anticipated by plaintiff when the LEMCO license was executed. That argument, assuming its validity, does not affect our analysis

(Continued on following page)

raised in *Bendix Corporation v. Balax, Inc.*,¹⁹ 421 F.2d 809, 819-821 (7th Cir. 1970), but are not present here.²⁰ We hold that the "no contest" clause in the LEMCO license, though unenforceable under *Lear*, does not constitute the kind of "misuse" of the patent which forecloses recovery of damages from an unlicensed infringer.

V.

[13] The jury assessed damages of \$150,000 against the corporate defendant. Defendant contends that this award was excessive.

Plaintiff's evidence indicated that its exclusive licensee paid a royalty of \$75 per machine and that defendant sold 2,641 infringing machines. Plaintiff therefore argued that it should recover at least \$198,000 (\$75 x 2,641). The jury's award was about 75% of that amount.

Defendant argues that the \$75 negotiated rate was for an exclusive license; that its machines sold for a much

Footnote continued—

of the misuse issue. In the *Singer* case, the court found a violation of the Sherman Act involving an agreement between competitors to exclude Japanese machines from the American market and to assist each other in a collective endeavor to obtain the broadest possible patent monopoly.

19. The counterclaim in *Bendix* alleged that a network of restrictive sales agreements "smothered most competition" in 75% of the swaging tap market. Without deciding the sufficiency of the allegation of a Sherman Act violation or "the relevance, if any, of *Lear*," we decided that the antitrust issues "should be first presented to the trial court for its consideration." 421 F.2d at 820-821.

20. Defendants argue that the clause exceeds the limit of the monopoly grant because it precludes a challenge to "any continuation, divisions or reissues," as well as to the '845 patent itself. But the license granted to LEMCO also broadly covered "patent extensions, reissues, and renewals and any patents issuing thereon . . ." and the no contest commitment terminated with the expiration of the license. See PX-69. Defendants make no claim that plaintiff has violated the antitrust laws.

lower price than the licensee's; and that a reasonable royalty should not exceed 5%, whereas the \$75 rate applied to its sales would amount to 22%. Plaintiff replies that the percentages are misleading because different levels of distribution may be involved and, in any event, the statute merely makes the reasonable royalty a minimum measure of damages.²¹

No question is raised about the form of the trial judge's instructions on the damage issue. The question for us is not what the damage award should be, but rather whether the amount awarded by the jury is supported by the record. We conclude that it is.

VI.

The jury assessed damages of \$5,000 against each of the individual defendants. All of the infringing pumps, however, were manufactured and sold by the corporate defendant. The individual defendants participated in the infringement in their capacity as officers and agents of the corporation. There is no suggestion in the record that the corporation is not financially responsible or that the individuals derived any direct benefit from the infringement.

The individual liability of managing officers of a corporation for acts of infringement committed by the corporation under their general direction was considered in depth in *Dangler v. Imperial Machine Co.*, 11 F.2d 945, 946-948 (7th Cir. 1926).

21. 35 U.S.C. § 284 provides in part:

"Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court. . . ." (Emphasis added.)

"Respecting the liability of officers of a corporation for its infringements of letters patent, the authorities are not in accord. The weight of authority, it seems, denies such liability in the ordinary case. That is to say, if the officers act merely as officers, they are not liable jointly with the corporation. It is only when the officers act outside the scope of their official duties that they become liable. * * * There are, however, numerous authorities that hold the managing officers liable for damages committed by the corporation in case of infringements. The enforcement of this liability is seldom sought, except in case of insolvency of the corporation.

"These latter holdings are on the theory that the corporation commits the tort only under the direction of the managing officers, and therefore these officers, including the directors who authorize the manufacture and sale of the infringing devices, are liable.

* * * * *

"The latter view seems to have the support of the text writers. Robinson on Patents, § 912; Walker on Patents, §§ 410-412. This court has heretofore taken the position first announced, namely, that the officers are not liable unless they act outside the scope of their official duties. *Cazier v. Mackie-Lovejoy Mfg. Co.*, 138 F. 654, 71 C.C.A. 104; *Reed v. Cropp Concrete Mach. Co.*, 225 F. 764, 141 C.C.A. 90.

* * * * *

"After due consideration of the various authorities, as well as the reasons back of the two positions, we adhere to the *Cazier v. Mackie-Lovejoy Mfg. Co.* decision, and hold that, in the absence of some special showing, the managing officers of a corporation are

not liable for the infringements of such corporation, though committed under their general direction. The uncertainty surrounding the questions of validity and infringement make any other rule unduly harsh and oppressive.

"It is when the officer acts willfully and knowingly—that is, when he personally participates in the manufacture or sale of the infringing article (acts other than as an officer), or when he uses the corporation as an instrument to carry out his own willful and deliberate infringements, or when he knowingly uses an irresponsible corporation with the purpose of avoiding personal liability—that officers are held jointly with the company. * * *"

[14] We adhere to *Dangler* and find no "special showing" in this record to support an award of damages against the individual defendants. The damage recovery against the corporate defendant will adequately compensate the plaintiff for the acts of infringement shown by the evidence.

The judgment against the individual defendants is reversed; the judgment against the corporate defendant is affirmed. Costs shall be taxed against the corporate defendant.

JUDGMENT AND PERMANENT INJUNCTION OF THE DISTRICT COURT

(Dated November 24, 1970)

Civil Action No. 67 C 201

IN THE
UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

PANTHER PUMPS & EQUIPMENT COMPANY, INC.,
an Illinois corporation,
Plaintiff,
vs.

HYDROCRAFT, INC., an Ohio corporation,
PAUL W. SCHLOSSER, an individual, and
EDWIN H. DRATH, an individual,
Defendants.

JUDGMENT AND PERMANENT INJUNCTION

This action came on for trial before the Court and a jury, Honorable Richard B. Austin, United States District Judge presiding and the issues having been duly tried and the jury having rendered its verdict, and the Court having directed a verdict for Defendants as to Claims 1-22 and 24-64 of U. S. Patent No. 3,254,845 and of Claims 1-8, 10-13, 18 and 20 of U. S. Patent No. 3,367,270, it is ordered and adjudged that Claim 23 of U. S. Patent No. 3,254,845 and Claim 19 of U. S. Patent No. 3,367,270 are valid and infringed by Defendants and that the judgments against Edwin H. Drath for \$5,000, Paul W. Schlosser for \$5,000 and Hydrocraft, Inc. for \$150,000 initially entered on

September 21, 1970 are hereby reentered as of November 20, 1970.

Pursuant to the judgment of this Court that Claim 23 of U.S. Patent No. 3,254,845 and Claim 19 of U.S. Patent No. 3,367,270 are valid and infringed by Defendants and assessing damages against the Defendants, due notice having been given, and the Court being apprised in the premises hereof:

It is ORDERED, ADJUDGED AND DECREED that an immediate, permanent Injunction, to take effect as of the date of this order, is hereby issued enjoining and restraining the Defendants, HYDROCRAFT, INC., and its divisions, subsidiaries, officers, agents, servants, employees, successors, assigns, PAUL W. SCHLOSSER, EDWIN H. DRATH, and all those in active concert or participation with them from making, having made, advertising, soliciting orders for, accepting or filling orders for, selling, using, offering for sale, or leasing any infringing products and from assisting others either directly or indirectly in such acts.

As used herein the term "infringing product" means any product covered by Claim 23 of the United States Letters Patent No. 3,254,845 and any product covered by Claim 19 of the United States Letters Patent No. 3,367,270, any colorable imitation or equivalent thereof, including, but not limited to, the product identified in the captioned case as Defendants' "SPRAY MATE PUMP" of Plaintiff's Exhibit 89.

So Ordered:

/s/ R. B. AUSTIN

*United States District Court
District of Illinois
Eastern Division*

CONSTITUTIONAL PROVISIONS, STATUTES AND RULES INVOLVED IN THIS CASE

United States Constitution, Amendment V

No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury, except in cases arising in the land or naval forces, or in the Militia, when in actual service in time of War or public danger; nor shall any person be subject for the same offence to be twice put in jeopardy of life or limb; nor shall be compelled in any criminal case to be a witness against himself, nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation.

28 U.S.C. § 1291. Final Decisions of district courts

The courts of appeals shall have jurisdiction of appeals from all final decisions of the district courts of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, and the District Court of the Virgin Islands, except where a direct review may be had in the Supreme Court.

Fed. R. Civ. P. Rule 25, 28 U.S.C.

(c) Transfer of Interest. In case of any transfer of interest, the action may be continued by or against the original party, unless the court upon motion directs the person to whom the interest is transferred to be substituted in the action or joined with the original party. Service of the motion shall be made as provided in subdivision (a) of this rule.

Fed. R. Civ. P. Rule 52, 28 U.S.C.**FINDINGS BY THE COURT**

(a) Effect. In all actions tried upon the facts without a jury or with an advisory jury, the court shall find the facts specially and state separately its conclusions of law thereon, and a judgment shall be entered pursuant to Rule 58; and in granting or refusing interlocutory injunctions the court shall similarly set forth the findings of fact and conclusions of law which constitute the grounds of its action. Requests for findings are not necessary for purposes of review. Findings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses. The findings of a master, to the extent that the court adopts them, shall be considered as the findings of the court. If an opinion or memorandum of decision is filed, it will be sufficient if the findings of fact and conclusions of law appear therein. Findings of fact and conclusions of law are unnecessary on decisions of motions under Rules 12 or 56 or any other motion except as provided in Rule 41(b).

26 Smith-Hurd Ill. Ann. Stats., § 6-110 (1963)

No action under this Article shall be brought nor levy made more than 6 months after the date on which the transferee took possession of the goods unless the transfer has been concealed. If the transfer has been concealed, actions may be brought or levies made within 6 months after its discovery.

Supreme Court, U. S.

FILED

APR 12 1978

MICHAEL RODAK, JR., CLERK

IN THE
Supreme Court of the United States

OCTOBER TERM, 1977

No. C77-1262

LOUIS BECK,

Petitioner,

vs.

PANTHER PUMPS & EQUIPMENT COMPANY, INC.,
(NOW MORRISON PUMP CO., INC.),

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES
CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

BRIEF FOR RESPONDENT IN OPPOSITION.

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IN THE
Supreme Court of the United States

OCTOBER TERM, 1977

No. C77-1262

LOUIS BECK,

Petitioner,

vs.

PANTHER PUMPS & EQUIPMENT COMPANY, INC.,
(Now MORRISON PUMP Co., INC.),

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES
CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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OPINIONS BELOW.

The opinion of the District Court (Pet. App. A46) is reported at 424 F. Supp. 815 (N. D. Ill. 1976). The opinion of the Court of Appeals for the Seventh Circuit (Pet. App. A1) is reported at 566 F. 2d 8 (7th Cir. 1978).¹

JURISDICTION.

The jurisdictional requisites are adequately set forth in the petition.

1. Throughout this opposition, "Pet. App." refers to petitioner's appendix.

QUESTIONS PRESENTED.

(1) Whether a party bound by an injunction against future infringement of patents is guilty of civil contempt for the manufacture and sale of an equivalent device.

(2) Whether a successor in interest defined by the substantive law of the state may be substituted as a party pursuant to the provisions of Rule 25(c), *Federal Rules of Civil Procedure*.

STATUTE AND FEDERAL RULES INVOLVED.

Title 28, Section 1291; Rules 25(c) and 60(b), *Federal Rules of Civil Procedure*.

STATEMENT OF THE CASE.

This litigation was necessitated by the activities of Louis Beck, petitioner, prior to and subsequent of a judgment being entered in this action by the district court on November 24, 1970 assessing damages of \$150,000 against the now dissolved Hydrocraft, Inc. for patent infringement (Pet. App. A77). An injunction was entered against Hydrocraft, its officers, agents, successors and others prohibiting future infringement of the patents in suit (Pet. App. A77).

The inventory of Hydrocraft, comprising 11½ tons of pump parts then present in Illinois and constituting substantially all of the assets of the company, were shipped during the period between November, 1970 to January 5, 1971 to petitioner in Ohio. At the same time petitioner, previously president and a one-third owner, acquired 100% control and ownership of Hydrocraft for \$200.00 (Tr. 65, 66, 77, 79, 618 and 620).

Petitioner then organized a solely owned corporation, Universal Spray Systems, Inc., in Ohio on January 8, 1971 which eventually received the entire inventory of defendant Hydrocraft (Tr. 1233, 1280, 1282 and 1311).

Universal Spray was organized to sell Spraymate parts and remained in the paint pump business by the manufacture and sale in the United States of a slightly modified version of the Spraymate identified as a Spraymate B pump using the parts of the Hydrocraft inventory (Tr. 1234, 1235 and 1302).²

The inventory of Hydrocraft was transferred from Illinois to a company under control of petitioner without notice to respondent.

When asked in open court whether he thought the subject assets belonged to respondent because of the judgment of November 24, 1970, petitioner testified "Yes at the time I thought they were going to come and get it." (Tr. 1286).

Respondent did not become aware of the transfer until 1975 (Tr. 221, 224, 227 and 228).

Respondent filed a motion for a rule to show cause why petitioner and his corporate entities should not be held in contempt for violating the permanent injunction of November 24, 1970 for selling the so-called modified paint pump, the Spraymate B. In an order dated April 1, 1976, the District Court held that it had jurisdiction over petitioner and he was bound by the injunction. Petitioner did not appeal this order to the Seventh Circuit.

Prior to the commencement of the contempt hearing, respondent filed a motion under Rule 25(c), Fed. R. Civ. P., to substitute or add petitioner as a party defendant in the action as a successor in interest to the then dissolved Hydrocraft. The judgment of \$150,000 had gone unsatisfied inasmuch as Hydrocraft possessed no assets after the transfer of its inventory to petitioner in late 1970 and early 1971.

2. Spraymate was the trademark used in conjunction with the original paint pumps of defendant Hydrocraft held to be an infringement by the judgment of November 24, 1970.

ARGUMENT.

In the petition, this Court has been deluged by a multitude of baseless issues with apparent faint hope by petitioner that one of these somehow provides a basis to justify the grant of certiorari. But the issues presented in this action have limited significance not warranting review by the Court. Contrary to the allegations of petitioner, the holding of Seventh Circuit Court is clearly consistent with prior decisions and presents no conflict or important constitutional question.

The Seventh Circuit reversed the District Court on both the issues of contempt and substitution of parties because the lower court had committed clear errors of law in discharging petitioner from the rule to show cause and denying the motion to substitute petitioner as a successor in interest pursuant to Rule 25(c), Fed. R. Civ. P.

1. Petitioner Was in Violation of Injunction of November 24, 1970.

With reference to the question of contempt, petitioner totally misconstrues the basis upon which the Seventh Circuit reversed the lower court on this issue. The circuit court correctly noted that the well-settled test in determining whether contempt exists in a patent case is *to compare the structure and function of the purported new device with the original infringing product to determine if equivalency exists*. *Schlegel Manufacturing Company v. U. S. M. Corp.*, 525 F. 2d 775, 781 and 782 (6th Cir. 1976); *cert. den.* 189 U. S. P. Q. 343; *McCullough Tool Co. v. Well Surveyes, Inc., et al.*, 395 F. 2d 230 (10th Cir. 1968); *cert. den.* 159 U. S. P. Q. 799.

Equivalency in a patent infringement sense has been clearly defined by this Court in the leading case of *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 339 U. S. 605, 607-08 (1950). At the contempt hearing, petitioner attempted and

succeeded in introducing a new defense of non-infringement and relitigated the issue of infringement. The relitigation involves whether the accused contemptuous device achieved a so-called level of static vapor pressure during operation.

Petitioner attempts to convince the Court that respondent took the position at the original infringement trial that the paint pump must achieve this level of vapor pressure to infringe the patents-in-suit. *This is directly contrary to the actual testimony of both expert witnesses of plaintiff and defendant at the original trial at which infringement was ultimately found.* The condition of vapor pressure is not set forth in the specification or the claims of either of the patents in suit. During the 1970 infringement trial, both the plaintiff's expert and defendants' expert agreed that "cavitation" as defined in the patents does not require the achievement of vapor pressure (Original Tr. 306, 314, 785 and 786).

In the case of *Commissioner of Internal Revenue v. Sunnen*, 33 U. S. 591, 597 (1948), this Court aptly expounds the doctrine of res judicata:

"The rule provides that when a court of competent jurisdiction has entered a final judgment on the merits of a cause of action, the parties to the suit and their privies are thereafter bound 'not only as to every matter which was offered and received to sustain or defeat the claim or demand, but as to any other admissible matter which might have been offered for that purpose.'"

The doctrine of res judicata is fully applicable to patent infringement cases, *Hart Steel Co. v. Railroad Supply Co.*, 244 U. S. 294, 297 (1917). It is also well settled that the issues of validity and infringement are not subject to collateral attack in a contempt proceeding. *U. S. ex rel. Shell Oil Co. v. Barco Corp.*, 430 F. 2d 998, 1002 (8th Cir. 1970).

Thus, petitioner erroneously was permitted by the district court to introduce a new defense of non-infringement relating to vapor pressure which was prohibited by res judicata.

In addition, the Seventh Circuit also noted that this new defense of petitioner was based on physical tests of the new pump alone which were not performed on the original infringing device. Petitioner and the District Court accordingly failed to consider the equivalency test in determining contempt as required by countless authorities.

Inasmuch as the comparative tests conducted by the experts of respondent on both the original infringing pump and the so-called new device clearly established equivalency, the Seventh Circuit appropriately found that indeed contemptuous acts had been perpetrated in violation of the injunction.

2. Petitioner Was Properly Substituted as a Party Pursuant to Rule 25(c).

As on the issue of contempt, petitioner presents an abundance of allegations on the issue of substitution pursuant to Rule 25(c) to rationalize consideration of this action by the Court. But the Seventh Circuit below ordered substitution of the petitioner based on an unquestionable proper analysis of the appropriate substantive law. The question of substitution here has no important ramifications meriting review.

Applying the proper standard, the Seventh Circuit found that petitioner was successor in interest of the dissolved original defendant, Hydrocraft, Inc., within the meaning of Rule 25(c), Fed. R. Civ. P.

The contention of petitioner that the appellate court could not review the order of the district court denying substitution is wholly meritless. The case of *Virginia Land Company v. Miami Shipbuilding Corp.*, 201 F. 2d 506 (5th Cir. 1953) relied on by petitioner stands for the proposition that an order denying substitution is not a final decision within the meaning of the statute (28 U. S. C. 1291). However, as with any interlocutory order, appeal of a decision refusing substitution must await final judgment in the action before appeal which occurred

in this action. (3B *Moore's Federal Practice*, § 25.03[2] at 25-111). None of the cases cited by petitioner remotely support the allegation that an interlocutory order can never be reviewed by the court of appeals.

3. Petitioner Is Not Denied Due Process by Substitution.

Petitioner asserts that he is denied the Constitutional right of due process because, by being substituted, he is bound by the unexecuted original judgment assessed against Hydrocraft. Such a contention totally ignores the relationship of the petitioner to the dissolved defendant through which liability under the original judgment is created. Through the consideration of numerous actions of petitioner, the Seventh Circuit applied the appropriate substantive law and found that petitioner was a successor in interest to Hydrocraft and its privy.

Petitioner secretly acquired substantially all the assets of Hydrocraft without consideration during pendency of the original infringement action through a fraudulent conveyance as defined by Illinois law. *The fraudulent transfer was only one element among many establishing petitioner as a successor.*

Petitioner further admitted in open court that these assets belonged to respondent because of the entry of the judgment of November 24, 1970 but did not notify respondent of the transfer. At the same petitioner acquired for \$100.00 complete control of Hydrocraft which was rendered a worthless shell without assets by virtue of the transfer. While Hydrocraft was insolvent and under his 100% stock ownership, petitioner filed a motion for relief under Rule 60(b) from the judgment of November 24, 1970, pursued an unsuccessful appeal to the Seventh Circuit and later petitioned this Court for certiorari. Thus, petitioner was no stranger to the original litigation and actively controlled it by seeking post-judgment relief and appellate review of the judgment against his predecessor, Hydrocraft.

Many of the parts of the transferred inventory by Hydrocraft were subsequently used by his solely owned Universal Spray to

manufacture the paint pump found to be in violation of the injunction. All of the foregoing actions of petitioner were carried out with an intent to avoid execution of the judgment of November 24, 1970.

The district court erroneously believed that the petitioner had the right to present defenses against the imposition of the liability created by the original judgment. This position of the district court totally ignored the privity relationship between Hydrocraft and petitioner and his active participation in the original litigation by which the petitioner was bound by the judgment and could not attack it by reason of *res judicata*. *Commissioner of Internal Revenue v. Sunnen, supra*.

Applying the applicable substantive state law in conjunction with this unusual factual pattern, the Seventh Circuit properly reversed the denial of the motion for substitution of defendant. In his decision, Judge Markey makes the following persuasive observation:

"For \$200, Beck became owner of 100% of Hydrocraft's stock. He then proceeded to drain off its only significant asset. At the same time, he caused Hydrocraft to pursue an appeal of this court, seeking a reversal of the judgment. If the judgment were reversed, he would pay nothing. If it were affirmed, he would pay also nothing, because he was 'not a party' and he had made Hydrocraft judgmentproof. One who attempts fraudulently to evade the judgment of a court does so at his peril. After the entry of judgment in 1970, Beck, by his own acts, made himself successor of Hydrocraft. As such, he acquired not only its assets but its liabilities.

It is well-established that a transferee pendente lite may be added or substituted in place of the original party to the action. See cases cited in 3B Moore's Federal Practice, § 25.08, at 25-323 n. 7 & 8. (2d ed. 1977). In the instant case, the transfer of interest was pendente lite, that is, after entry of judgment but before the appeal was decided by this court. However, the transfer was secret, unknown to Panther until 1975, and Panther's motion

could not have been filed earlier. Now that the facts are fully revealed, substitution is proper and should be effected in the interest of justice." (Pet. App. A43.)

4. Substitution Motion Was Procedurally Proper.

The paucity in substance of the petition is aptly demonstrated by the assertion that a motion under Rule 25(c) can not be made subsequent to entry of a judgment in an action. The Seventh Circuit rightly was unpersuaded by such arguments presented to it on appeal. Without conflict, Rule 25(c) has been construed as permitting substitution where appropriate after judgment, even in supplemental proceedings, where the action is pending. 3B Moore's Federal Practice, § 25.03[1] at 25-101-102; *U. S. for Use of Acme Granite & Tile Co. v. F. D. Rich Co., Inc.*, 437 F. 2d 549 (9th Cir. 1970). See also *Chief Consolidated Mining Co. v. Mammoth Mining Co.*, 29 F. 2d 703, 705 (8th Cir. 1928).

The matter of contempt in the action was pending before the district court and jurisdiction has previously been acquired over petitioner. Substitution was not barred by any statute of limitations. The Illinois statute of limitations cited by petitioner pertained to the Bulk Sales Act which was not remotely involved in the substitution matter.

CONCLUSION.

For the foregoing reasons, it is respectfully submitted this petition for a writ of certiorari should be denied.

Respectfully submitted,

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